

BALANCED-BUDGET AMENDMENT TO THE CONSTITUTION

HEARING BEFORE THE SUBCOMMITTEE ON THE CONSTITUTION OF THE COMMITTEE ON THE JUDICIARY UNITED STATES SENATE ONE HUNDRED THIRD CONGRESS

FIRST SESSION

ON

S.J. Res. 41

A BILL PROPOSING AN AMENDMENT TO THE CONSTITUTION OF THE
UNITED STATES TO REQUIRE A BALANCED BUDGET

MARCH 16, 1993

Serial No. J-103-4

Printed for the use of the Committee on the Judiciary



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CONTENTS

STATEMENTS OF COMMITTEE MEMBERS

	Page
Simon, Hon. Paul, U.S. Senator from the State of Illinois (Chairman of the subcommittee)	7
DeConcini, Hon. Dennis, U.S. Senator from the State of Arizona	42, 44
Hatch, Hon. Orrin G., U.S. Senator from the State of Utah	1
Thurmond, Hon. Strom, U.S. Senator from the State of South Carolina	27
Brown, Hon. Hank, U.S. Senator from the State of Colorado	25

PROPOSED LEGISLATION

S.J. Res. 41, a joint resolution proposing an amendment to the Constitution of the United States to require a balanced budget	4
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CHRONOLOGICAL LIST OF WITNESSES

Panel consisting of Hon. Strom Thurmond, a U.S. Senator from the State of South Carolina; Hon. Bob Graham, a U.S. Senator from the State of Florida; Hon. John C. Danforth, a U.S. Senator from the State of Missouri; and Hon. Larry Craig, a U.S. Senator from the State of Idaho	27
Panel consisting of David P. Calleo, Dean Acheson Professor and Director of European Studies, Nitze School of Advanced International Studies, Johns Hopkins University; James D. Davidson, chairman, National Taxpayers Union; Kenneth Ashby, president, Utah Farm Bureau Federation, on behalf of the American Farm Bureau Federation; and Kent Colton, executive vice president, National Association of Home Builders	46
Panel consisting of Max B. Sawicky, Economic Policy Institute; Dr. Rudolph Oswald, director, Department of Economic Research, AFL-CIO; and Robert Greenstein, director, Center on Budget and Policy Priorities	73

ALPHABETICAL LIST AND MATERIAL SUBMITTED

Ashby, Kenneth: Testimony	58
Calleo, David P.: Testimony	46
Prepared statement	48
Colton, Kent: Testimony	59
Prepared statement	61
Craig, Hon. Larry E.: Testimony	34
Danforth, Hon. John C.: Testimony	31
Prepared statement	33
Davidson, James D.: Testimony	50
Prepared statement	52
Graham, Hon. Bob: Testimony	29
Greenstein, Robert: Testimony	81
Prepared statement	83
Oswald, Dr. Rudolph: Testimony	77
Prepared statement	79

	Page
Sawicky, Max B.: Testimony	73
Prepared statement	75
Simon, Hon. Paul: "The Federal Budget," by Senator Paul H. Douglas, Illinois, delivered before a joint meeting of the American Economic Association and Amer- ican Finance Association, Dec. 28, 1949, New York, NY	9
Various newspaper articles and editorial comments: "The Liberal Case for a Budget Amendment," by Michael Kinsley, the Washington Post, May 14, 1992	18
"Yes on the Balanced Budget Amendment," editorial comment, the Washington Times, May 11, 1992	19
"A Constitutional Answer to Deficits," editorial comment, the Chicago Tribune, May 10, 1992	20
"No Wonder We Spend And Spend," by George F. Will, the Washing- ton Post, May 21, 1992	21
"Balance the Budget—By Force," editorial comment, U.S. News & World Report, June 1, 1992	22
"A Crucial Amendment," editorial comment, the Richmond Times- Dispatch, June 8, 1992	23
"Balanced Budget—Yes! Let's Control the Debt," editorial comment, the Dallas Morning News, May 10, 1992	24
"Stop Budget Abuse—The Balanced-Budget Amendment is a Bad Idea Whose Time, Alas, Has Come," editorial comment, the Phila- delphia Inquirer, June 7, 1992	25

APPENDIX

ADDITIONAL SUBMISSIONS FOR THE RECORD

Prepared statement of Hon. Bob Krueger	93
Outline of a presentation, "A Balanced Budget Constitutional Amendment: Economic Issues," by Robert Eisner, for the Congressional Research Service Seminar, Library of Congress, May 28, 1992	94

BALANCED-BUDGET AMENDMENT TO THE CONSTITUTION

TUESDAY, MARCH 16, 1993

U.S. SENATE,
SUBCOMMITTEE ON THE CONSTITUTION,
COMMITTEE ON THE JUDICIARY,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:13 a.m., in room SD-226, Dirksen Senate Office Building, Hon. Paul Simon (chairman of the subcommittee) presiding.

Also present: Senators DeConcini, Brown, Hatch, and Heflin (ex officio).

Senator SIMON. The subcommittee will come to order. Rather than my having an initial opening statement right now, I know that Senator Hatch has another appointment. Let me call on our colleague, Senator Hatch.

OPENING STATEMENT OF HON. ORRIN G. HATCH, A U.S. SENATOR FROM THE STATE OF UTAH

Senator HATCH. Well, I thank you, Mr. Chairman. I have to be over at the Supreme Court this morning to speak to a judicial conference at the request of the Chief Justice, so I appreciate you giving me this opportunity to say a few words about our amendment.

I am pleased to be here today to discuss the Simon-Hatch S.J. Res. 41, a balanced-budget amendment to our national Constitution. Our Federal budget deficit is perhaps the most important problem that our Nation is facing today. It requires the strong therapy that only a constitutional amendment can provide, and we need it now.

The national debt currently exceeds \$4 trillion. This means that every man, woman, and child in the State of Utah and all of the other States has a debt burden today of \$16,700 per person, as illustrated by this chart right here. As you can see, that debt burden for each man, woman, and child in America was \$2,500 just 18 years ago, back in 1975. You can see how that has grown exponentially.

Think of it, every child born in Utah and in all of the other States will pay, in a normal lifetime, nearly \$135,000 in extra taxes just to pay the interest on the present Federal debt, and the debt is growing exponentially. No wonder deficit spending has been called fiscal child abuse.

Voter outrage concerning the deficit has fueled a revival of the balanced-budget amendment debate. Even after the 1990 budget

deal, record-setting tax hikes led to record deficits. Why? Because Congress spent \$1.91 for every \$1 raised.

The people of Utah know what happens when you spend \$1.91 for every \$1 you earn, and they do not expect to make their children and grandchildren pay their credit card bills. That is why over 70 percent of my fellow Utahns favor a balanced-budget amendment.

I regularly receive mail from Utahns concerned about the way the Federal Government soaks up capital to make interest payments which could be put to more productive use, such as health, housing, or education programs, or private investment in new businesses, or new technology.

Congress has proven itself wholly incapable of controlling deficit. A balanced-budget constitutional amendment is necessary to force Congress to keep faith with the voters who expect them to end this fiscal folly. Statutory efforts to control spending are inadequate. Any balanced-budget statute can be repealed, in whole or in part, by the simple expedient of adopting a new statute. Only the constitutional discipline of a balanced-budget constitutional amendment can return sanity to the out-of-control budget process. Now, this amendment is not a panacea for the economic problems of the Nation. The amendment is, however, a necessary step toward securing an environment more conducive to honest and accountable fiscal decisionmaking.

We are fortunate today to have such a fine panel of experts with us, and I am particularly pleased to introduce my friend and fellow Utahn, Kenneth R. Ashby. He is president and chairman of the board of the Utah Farm Bureau Federation and its affiliates. Mr. Ashby has also served the American Farm Bureau Federation on its board of directors and on a number of its committees, including the Farm Credit Committee and the International Trade Advisory Committee. In these capacities he has met not only with farmers from all over Utah and the United States, but from all over the world. He has done all of this while running a family farm in Delta, UT.

I also want to pay special tribute to my colleague, the chairman of this subcommittee, Senator Paul Simon. He has been a critical force in this effort over the years, and Senator Brown is making a real difference on this matter, as he is in all economic matters, on the floor and throughout the Senate and throughout the Congress, and we are pleased to have his support.

I must also make particular mention of Senator Strom Thurmond, my predecessor as ranking minority member on the Senate Judiciary Committee, who will be testifying today. He is uniquely qualified to discuss the need for a balanced-budget amendment. Throughout his long tenure of service in the U.S. Congress, he has been a leader in this effort and I look forward to his continued participation. I might add that there are Members in the House who are making a real difference on this amendment as well.

I think now we have the best opportunity to pass this constitutional amendment than we have ever seen in either House of Congress, and so I commend all of those who are helping to put this forth today, those who will testify for it. I am also looking forward to listening to those who will testify against it as well today so that

we can have a good exchange and, of course, see where we are all coming from.

Mr. Chairman, I really appreciate your giving me this opportunity in advance of you two leaders on this subcommittee so that I can make this other appointment, and I will try to get back for the rest of the hearing.

Senator SIMON. Thank you very much, Senator Hatch, and thank you for your leadership on this matter.

[Text of Senate Joint Resolution 41 follows:]

103D CONGRESS
1ST SESSION

S. J. RES. 41

Proposing an amendment to the Constitution of the United States to require
a balanced budget.

IN THE SENATE OF THE UNITED STATES

FEBRUARY 4 (legislative day, JANUARY 5), 1993

Mr. SIMON (for himself, Mr. HATCH, Mr. DECONCINI, Mr. THURMOND, Mr. HEFLIN, Mr. CRAIG, Mr. KOHL, Mr. GRASSLEY, Ms. MOSELEY-BRAUN, Mr. BROWN, Mr. DASCHLE, Mr. COHEN, Mr. BRYAN, Mr. PRESSLER, Mr. SHELBY, Mr. BENNETT, Mr. GRAHAM, Mr. SMITH, Mr. KRUEGER, Mr. KEMPTHORNE, Mr. MATHEWS, Mr. NICKLES, Mr. CAMPBELL, and Mr. LUGAR) introduced the following joint resolution; which was read twice and referred to the Committee on the Judiciary

JOINT RESOLUTION

Proposing an amendment to the Constitution of the United
States to require a balanced budget.

1 *Resolved by the Senate and House of Representatives*
2 *of the United States of America in Congress assembled,*
3 *(two-thirds of each House concurring therein),* That the fol-
4 lowing article is proposed as an amendment to the Con-
5 stitution, which shall be valid to all intents and purposes
6 as part of the Constitution when ratified by the legisla-
7 tures of three-fourths of the several States within seven

1 years after the date of its submission to the States for
2 ratification:

3 “ARTICLE —

4 “SECTION 1. Total outlays for any fiscal year shall
5 not exceed total receipts for that fiscal year, unless three-
6 fifths of the whole number of each House of Congress shall
7 provide by law for a specific excess of outlays over receipts
8 by a rolcall vote.

9 “SECTION 2. The limit on the debt of the United
10 States held by the public shall not be increased, unless
11 three-fifths of the whole number of each House shall pro-
12 vide by law for such an increase by a rolcall vote.

13 “SECTION 3. Prior to each fiscal year, the President
14 shall transmit to the Congress a proposed budget for the
15 United States Government for that fiscal year, in which
16 total outlays do not exceed total receipts.

17 “SECTION 4. No bill to increase revenue shall become
18 law unless approved by a majority of the whole number
19 of each House by a rolcall vote.

20 “SECTION 5. The Congress may waive the provisions
21 of this article for any fiscal year in which a declaration
22 of war is in effect. The provisions of this article may be
23 waived for any fiscal year in which the United States is
24 engaged in military conflict which causes an imminent and
25 serious military threat to national security and is so de-

1 clared by a joint resolution, adopted by a majority of the
2 whole number of each House, which becomes law.

3 “SECTION 6. The Congress shall enforce and imple-
4 ment this article by appropriate legislation, which may rely
5 on estimates of outlays and receipts.

6 “SECTION 7. Total receipts shall include all receipts
7 of the United States Government except those derived
8 from borrowing. Total outlays shall include all outlays of
9 the United States Government except for those for repay-
10 ment of debt principal.

11 “SECTION 8. This article shall take effect beginning
12 with fiscal year 1999 or with the second fiscal year begin-
13 ning after its ratification, whichever is later.”.

○

OPENING STATEMENT OF HON. PAUL SIMON, A U.S. SENATOR FROM THE STATE OF ILLINOIS

Senator SIMON. I have just a few observations. To the credit of President Clinton, he really is starting to face this deficit crunch. The difficulty is that you can see some unraveling starting to take place already. The real pain starts 2, 3, or 4 years down the road. Then it is going to be very hard to hold any kind of a semblance of a program together, and we are already harming our economy.

We are going to hear from Prof. David Calleo, who has written eloquently about this. The New York Federal Reserve Board study suggests that in the decade of the 1980's the deficit cost us 5-percent growth in GNP, where 1 percent amounts to 650,000 jobs. How many hundreds of thousands of construction workers, steel workers, UAW members lost jobs because of this, no one knows.

Even if you disregard that study, I asked CRS and CBO to get me studies on what percentage of the trade deficit was caused by the budget deficit. They came back with a series of studies; 37 to 55 percent of the trade deficit is caused by the budget deficit—again, the deficit is doing serious harm to our economy right now.

Then the GAO report in June of last year says if, by the year 2001, we balance the budget, by the year 2020, in real per capita income—that is, inflation-adjusted—you can expect a 20-percent increase in real per capita income. If we do not do it, we are going to have a continued slide downward.

There is also a redistribution factor. When you take this year roughly \$307 billion and put into interest, who pays, who collects? Well, who pays? People of limited means, by and large. Those who collect are those who are more fortunate economically.

It is very interesting that today, while we are debating how much of a stimulus package to have, whether it should be \$20 or \$30 billion, Taiwan has an infrastructure 5-year program of \$600 billion. They have only 10 percent of our population. That would be the equivalent of a \$6 trillion infrastructure program in the United States. Now, if we were to come up with that kind of a program, the financial markets would go berserk, but Taiwan has been very prudent fiscally. They have more foreign reserves than any other country. Ten years from now, what is going to be happening in Taiwan? Well, you can be assured they are going to be really moving ahead economically.

I have more notes than I have time here, but let me just add—where do we go long term if we don't solve this thing? We have one graph that shows real percentage increases. You may not be able to see that out there, but the nondefense discretionary is there at 9 percent, defense at 17 percent, entitlements at 47 percent, gross interest, 97 percent. This is inflation-adjusted, what has happened between fiscal years 1981 and 1993.

If I had another graph showing Social Security retirement, it would be gradually rising until we get to the year 2010. If we can just continue to drift, and I doubt that is possible, but if we can just continue to drift, in the year 2010 all of a sudden there is a marked increase in Social Security retirement that now buys our bonds, and at that point Congress and the President, whoever is there, will have one of three choices to make.

First, you can dramatically reduce Social Security, and you can guess how politically popular that would be. Second, you can dramatically increase taxes, and you can guess how popular that would be. And the third option is to print more money. That is the direction I see us going unless we have this amendment adopted.

Thomas Jefferson unfortunately was not in the United States when our Constitution was written—he was in France. When he came back he said, and let me quote from Thomas Jefferson:

I wish it were possible to obtain a single amendment to our Constitution. I would be willing to depend on that alone for the reduction of the administration of our Government to the genuine principles of its Constitution; I mean an additional article taking from the Federal Government the power of borrowing.

And then he adds:

The question whether one generation has the right to bind another by the deficit it imposes is a question of such fundamental importance as to place it among the fundamental principles of government. We should consider ourselves unauthorized to saddle posterity with our debts and morally bound to pay them ourselves.

Thomas Jefferson knew what he was talking about, and while Thomas Jefferson differed with Alexander Hamilton on a great many things, on this they did not. Alexander Hamilton said the idea of:

* * * incorporating as a fundamental maxim in the system of public credit of the United States the creation of debt should always be accompanied with a means of extinguishment, * * *

Finally, before I add some editorials in the record here, the seat that I occupy was once held by Senator Paul Douglas, who was president of the American Economics Association. In 1949, he made a speech to the American Economics Association talking about the need for balancing the budget saying we are going in the wrong direction. He says:

In short, the problem of balancing the budget and of adopting a sound fiscal policy is not merely economic. It is to an even greater degree a moral issue. We shall need a proper sense of values and a high degree of ethical self-restraint if we are to reach our goal.

The deficit when he made that speech for that fiscal year was \$3.1 billion and the prime rate, believe it or not, was 2 percent.

I would like to enter into the record, also, a series of editorials and others—Michael Kinsley in the Washington Post, "The Liberal Case for a Budget Amendment"; the Washington Times, "Yes on the Balanced Budget Amendment"; Chicago Tribune, "A constitutional answer to deficits"; the George Will column in the Washington Post, "No Wonder We Spend And Spend"; David Gergen in U.S. News & World Report, "Balance the Budget—By Force"; Richmond Times-Dispatch, "A Crucial Amendment"; the Dallas Morning News, "Balanced Budget—Yes! Let's control the debt"; the Philadelphia Inquirer, "Stop budget abuse—The balanced-budget amendment is a bad idea whose time, alas, has come."

[The articles referred to follow:]

THE FEDERAL BUDGET, BY SENATOR PAUL H. DOUGLAS, ILLINOIS

[Delivered Before a Joint Meeting of the American Economic Association and American Finance Association,
Dec. 28, 1949, New York, NY]

I

For the current fiscal year ending June 30, 1950, the federal government will expend at least \$43.5 billion and may indeed spend something over \$44 billion. This is about 19 percent of the net national income of about \$220 billion and 17 percent of the gross national product of \$250 billion. At the same time the government will take in not more than \$38 billion and quite possibly less, since the total receipts up to December 21 were only \$16.8 billion, and may, indeed, fall as low as \$37 billion for the year. We therefore face a current deficit of from \$5.5 to \$7 billion.

Before we start to draw conclusions, however, concerning the wisdom or lack of wisdom of this situation or the problems which are presented for the next fiscal year of 1950-51, it is desirable to look at the amounts which the federal government is spending for the main purposes.

1. First come expenditures directly incurred as a result of past wars. These include interest of the \$257 billion of debt, financed at the extraordinarily low average rate of about 2.2 percent, but totalling approximately \$5.5 billion a year. To this should be added liberal expenditures for veterans, which will amount to about \$6 billion, making a total of about \$11.5 billion for past wars.

2. So far as preparation against future wars is concerned, we will spend about \$15 billion for the armed services and for stock-piling strategic materials. Another \$1.4 billion will go to help re-arm the democracies of Western Europe and for aid, primarily military in character, to Greece and Turkey. Since the approximately \$1 billion which will be spent by the Atomic Energy Commission will be military rather than civilian in character, we are therefore spending nearly \$17.5 billion in order to prepare ourselves against potential aggression and threats to the peace.

3. But since the present "cold war" is economic as well as military in character, we must buoy up the economies of Western Europe and meet the costs of occupation in Germany and Japan. We will spend for these purposes something over \$5 billion. In all, therefore, we are spending approximately \$34 billion, or 77 percent of total government expenditures, either as a result of past wars or to prepare ourselves more effectively against future wars. If our federal expenditures and federal taxes are very high, as they are, it is because we live in a warfare world rather than in a welfare state.

4. Of the approximately \$10 billion, or 23 percent of the total budget, which will be spent for all other purposes, about \$2 billion or around 5 percent of the total will probably be used to help maintain the guaranteed level of farm prices. In return, the federal government will take title to large quantities of wheat, corn, tobacco and cotton and will store and give away to the needy considerable amounts of perishable goods such as potatoes and eggs. Actual total outlays for welfare purposes, including federal contributions for assistance to the aged, for dependent children, etc., for health and hospitals, for housing, and for education will amount to about \$2.2 billion or another 5 percent of the total. If we add the amounts expended in unemployment compensation and old-age insurance benefits, this total will be increased by from \$1.5 to \$2 billion. Somewhere between \$1.2 and \$1.5 billion, or between 3 and 3½ percent of the total will be expended on public works and the conservation of natural resources.

It will, therefore, be soon that the federal government is being forced by pressure of events and of public opinion to assume heavy burdens. Thus we are bearing the post-war costs of the costliest war in human history, preparing to defend ourselves militarily against a mighty power which seems determined to overthrow or undermine democracy wherever it can, and extending aid in a generous and unprecedented fashion to our sister democracies who stand with us in their opposition to the police state. At the same time, we are seeking to maintain farm incomes at a high level; developing our natural resources of water and trying to conserve our soil; protecting the aged and the unemployed; starting to clear the worst of the slums and to build decent housing for 810,000 low income families; and making a beginning in building hospitals and carrying on medical research.

In addition we should recognize that the states and localities will probably be spending not far from \$20 billion during the current year for schools, roads, water, fire, police and health protection, for the care and relief of the unfortunate, and for the ordinary expenses of justice and administration. On all levels of government, from the localities up to and including the federal government, we will, therefore, spend about \$64 billion. This is 25 percent of the gross national product and about

29 percent of the net national income. It is 50 percent more than was the total national income only 16 short years ago.

In short, we are seeking in the costly modern age to do what the constitutional fathers told us to do, namely to "establish justice, insure domestic tranquility, provide for the common defense and promote the general welfare."

I happen to believe that the purposes of our expenditures are worthy, necessary, and in the main well spent. But the burden is indeed heavy and we are able to bear it only because of the tremendous increase in productivity and in our national income which in money terms has increased over five times since 1933 and which in real terms has at least doubled. But surely we are at least approaching the ceiling of what government as such should proportionately take from the private incomes of the community and it is time that we should deal realistically with the problems which are presented.

There is little or nothing more that can be done about the current fiscal year. The appropriations have been made and the programs are under way. But we can do something about the coming fiscal year of 1950-51. There are strong pressures at work in the country not merely to keep the budget at its present figure of around \$44 billion, but to raise it to at least \$45 billion. We shall, therefore, need the active cooperation of the Executive, of Congress, and perhaps most of all, of the general public if we are not to have a further deficit of from \$5 to \$6 billion for 1950-51.

II

At the same time, we seem to be emerging from the recession of the last year. Production is going up and is now probably 10 points above October. Unemployment is decreasing and now amounts to about $3\frac{1}{2}$ million or around 6% percent of the non-agricultural working force. While business forecasts are extremely dangerous, the signs point towards continued revival for some time with little evidence of a possible collapse in sight. In the light of these conditions, the question naturally arises as to whether we should change our budgetary policy and, if so, how.

The effects of an appreciable government deficit in a period of business revival and prosperity are well-known. The deficit will be met by borrowing and this borrowing will be primarily from the banks, which will create credit to make the loans and which will increase the total stock of money offered for goods. If unemployment is down to the minimum caused by seasonal and transitional factors, which in this country is probably between 4 and 5 percent or from 2 to $2\frac{1}{2}$ million of the non-agricultural working force, then the addition of this money does not add to total employment or total production. It merely bids up the average level of prices and diverts resources from the production of goods from private to public purposes. The rise in prices will of course have its familiar consequences. It will eat into fixed incomes, including those of the aged. It will increase the cost of government probably more rapidly than the rise in revenues. It will widen profit margins, stimulate the speculative buying of goods, and hence drive up prices still further and provoke industrial strife as workers seek to have wage levels keep pace with rising prices.

In spite of the common recognition of these consequences, I think I can detect advance rumblings of a double-headed argument which we are likely to hear a great deal about during the next half year. It is first that as long as unemployment is above the irreducible minimum which some set at from 2 to $2\frac{1}{2}$ million, but which the advocates of this theory are likely to fix as low as $1\frac{1}{2}$ million, governmental deficits are necessary and desirable as a means of creating an additional demand for goods to put unemployed labor and unutilized capital equipment to work. The second argument is that we should not fear the accumulation of public debt since: (a) we will merely owe it to ourselves and (b) in any event the rise of national income and the fall of the interest rate have kept the percentage of the national income used for debt service low, namely at about $2\frac{1}{2}$ percent of net national income of $2\frac{1}{2}$ percent of gross national product.

In dealing with the first argument, what we need to consider is by how much we would need to increase the current deficit in order to keep unemployment down to the minimum goal, which the believers in deficit financing are likely to fix ever lower and lower. While it is difficult to draw hard and fast conclusions on this point, it seems probable that, as we get down towards the bed-rock minimum, larger and larger doses of public expenditures are required to absorb additional numbers of the unemployed. The added monetary purchasing power would therefore only be devoted in part to putting the unemployed to work. A large part of it would also spill over into a price rise. How much of a price increase this would be for each increment of 100,000 workers or so employed is something which we do not know. But that there would be some increase is virtually certain—and possibly this might be quite large. Against the additional workers employed would have to be set the loss of real

income by the aged living on pensions and fixed incomes, and the general unstabilizing influence of inflation.

It should also be recognized that the major part of the present unemployed have not been out of work for long. Thus in October of this year when there were about 3.6 million unemployed, only 1.6 million had been out of work for more than a month and 2 million had been out of work for less than a month.¹ The major portion of those out of work may therefore still be regarded as transitionally unemployed.

If we mean to adopt the standard that we should have government deficits as long as unemployment is above 3 percent, we will, I am afraid, commit ourselves to a perpetual policy of deficit financing, and if we take 4 or even 5 percent as our standard, we will in all probability be committed to deficit financing for the vast proportion of years except when there is such inflation from non-governmental sources as to give the same result which we fear. The federal government may well act to keep unemployment down this low by such method as providing information on the location of surplus and deficit labor areas, but there is a limit to the value of using deficit financing to solve this problem.

In short, if we adopt deficit financing as a means of driving unemployment down 3 or 4 percent, we may expect, I believe, a slow inflationary pressure upon the economy, with all the evils which this brings. If to this is added inflationary pressures coming from business monopoly, wage demands in excess of productivity increases, and from other non-governmental sources, there will, of course, be an intensified pressure towards price increases. Whether these can be offset by great production gains and by the historic tendency of war-inflated prices subsequently to fall is, of course, an open question.

What, then, would be the long-time consequences of such a growth in the public debt? Many of the earlier fears have been proved groundless. If we had been told in 1939 that the public debt would rise to over \$250 billion in 10 short years, I imagine that nearly all of us would have had sleepless nights and would have feared for the financial stability of the country. But this burden, as I have said, has in practice turned out not to be excessive. The 2½ percent of net national income which we are transferring for interest on government securities compares very favorably with the approximately 7 percent which the British paid out in 1815 at the conclusion of the Napoleonic Wars and again in 1924, or 5 years after the end of the First World War. But if the public debt increases more rapidly than national income, we shall be still further decreasing the net proportionate income paid to persons on the basis of effort and thus further weakening purely economic incentives. Furthermore, I am still enough of a Puritan to believe that in peacetime any absolute increase in the public debt should only be incurred for purposes which increase the true productive powers of the nation, whether these be in material resources such as dams and power projects, or in the heightened productive powers of the people, rather than for current outlays whose effect is transient. Finally, in a world characterized by a cold war which may at any time break out into a shooting war, and in a world from which the fear of a further great depression has not yet been banished, and which, if either materializes, will create great governmental deficits, we should prudently keep some reserve capacities for such great catastrophes. A wise military commander always holds reserves for great emergencies and one of the first lessons which combat commanders must learn is not to commit these reserves prematurely.

My own conclusion from all this is that, while confessedly our reason is an imperfect torch with which to light the immediate path ahead, on the whole it is prudent to at least balance the budget for the fiscal year 1950-51 and to do so by reducing expenditures to \$39 billion if it can be done, as I believe it can, rather than by increasing the rate of taxation.

It is here, however, that I part company with many, and perhaps most of my fellow budget-balancers and fellow members of the so-called "economy bloc". Many of these gentlemen would seek to balance the budget by eliminating or greatly reducing the services which the federal government performs. In particular, the eyes of these men seem to gleam with especial intensity when they come to the so-called welfare functions of the federal government, which as we have seen, comprise but a relatively small fraction of total federal spending. I would try instead to balance the budget by eliminating wastes in administration and in unneeded subsidies rather than by reducing services. I happen to believe that government should be concerned with human welfare. That is what Jefferson believed when he wrote of man's inalienable right to "the pursuit of happiness" the furtherance of which was one of the purposes of government. It was explicitly stated to be one of the purposes of the

¹See Bureau of the Census Monthly Report on the Labor Force. Series P 57, No. 89, November 1949, p. 10, table 9.

loose government set up under the Articles of Confederation. It was again reaffirmed as one of the six fundamental aims of our government in the Preamble of the Constitution and was made a direct power of Congress in Article I, Section 8. It is what Lincoln meant when he spoke at Gettysburg of our government as being one not only *of* and *by*, but also *for* the people.

III

But it is not enough to try to give general advice showing the need for economy. It is even more necessary to find the places where these cuts can properly be made. After working for over a year on the federal budget, I have come to some fairly detailed proposals which should save a total of about \$5.4 billion. These reductions can be made in the following places:

A. Armed Services—\$2,000 million.

Anyone who has been in the armed services knows at first hand the waste of supplies, the excessive number of civilian employees and the heavy over-staffing of headquarters units from the regimental level on up through the higher echelons. President Truman and Secretary Johnson deserve a great deal of credit for the resolute way in which they are trying to eliminate this waste. The number of civilian employees is being reduced by about 139,000; reforms are being introduced in the supply agencies; and in general the services are receiving a much needed shake-down. It was apparently planned to cut this part of the budget by \$2 billion, but recent authoritative press comments seem to indicate that this goal has now been lowered to \$1.5 billion.² I would suggest that Congress and the public should cooperate with the Executive in order that we may reach the original figure.

B. Foreign Aid—\$750 million.

It has always been the purpose of the Marshall Plan to taper off the grants to the Western democracies as they more and more begin to get on their feet. Congress appropriated \$3.75 billion for the ECA this last year and the economic recovery of Europe has been such that this sum can safely be decreased for 1950-51. A cut of \$750 million to a total of \$3 billion would seem to be safe.

I should, however, like to warn against the dangers of an excessive cut in the ECA appropriations. We are engaged in a mighty struggle with the Russians as to whether we can prevent democracy from being crushed out by the police state. We have thus far checked the westward spread of communism and greatly reduced its appeal to the working classes and intellectuals. This has been done by the help given through the Marshall Plan and by the North Atlantic Pact and the Military Aid Program. But Western Europe is still in a delicate state of balance and sharp cuts in the supplies of food, raw materials and machinery might set back their recovery and undo a lot of the good which has been done. For this reason, severe cuts of from \$1.5 to \$2 billion, which are now being proposed by opponents of ECA are, in my judgment, altogether too severe and would do more harm than good.

It is also probable that occupation costs in Germany and Japan can also be reduced. In view, however, of the need to re-equip the armies of Western Europe, to help Southeastern Asia resist communism and to make a modest beginning in bringing the aid outlined in Point IV of President Truman's program to the undeveloped areas of the world, I would prefer to see such savings transferred to these purposes rather than take the form of an outright cut in the budget itself.

C. Economies in the Civilian Budget—\$2,650 million.

When civilian administrators have been accused of tolerating waste in their branches of government, their common reply has been "If you want to save, turn your attention to the military—that's where the real wastes lie."

These pleas to look somewhere else cannot be made now that President Truman and Secretary Johnson are really cutting out most of the fat from the military budget. We should face the fact frankly that there are great wastes and unneeded subsidies in the civilian as well as the military budget. If we are to be fiscally solvent, we must be unsparing in cutting out those wastes as well. We should be able to cut the civilian budget by \$2,650 million in the following ways:

1. Elimination of postal subsidies—\$400 million.

During the last fiscal year 1948-49, the deficit in the Post Office Department amounted to \$550 million. About \$150 million of this took the form of unpaid services performed by the Post Office for other governmental agencies for which the pri-

²When the budget was presented on Jan. 9, 1950, this was the cut below *appropriations* for 1949-50.

vate users of the mails should not be asked to pay. About \$73 million of this was for franked government mail, of which only \$1.1 million was due to Congressional mailings. Furnishing office space, janitorial service, heat and light to other government agencies took another \$50 million and the remainder went for air mail subsidies in excess of adequate costs.

But what about the remaining deficit of \$400 million? First class or ordinary mail more than paid its way. Postmaster General Donaldson estimates that in 1948-49, it cost the government \$247 million to move second class mail, i.e., newspapers and magazines, for which the Department received only \$40 million in postage. The subsidy to the newspapers and magazines of the country amounted therefore to about \$200 million. Mr. Donaldson also estimated that the loss on third class mail (unsealed advertising matter) was over \$120 million, and on fourth class matter (parcel post) over \$80 million.³ We had hoped that the deficit caused by the postal subsidies would be reduced this year, but due in part to the fact that the clerks and carriers were given appreciable pay increases, the postal deficit for the current year of 1949-50 promises to be even greater.

It is ironical that the newspapers and magazines which almost uniformly demand government economics and a balanced budget should be receiving one of the biggest of all subsidies. If we really mean business, we should so increase rates as to remove these subsidies or at the very least reduce them to small dimensions. The newspapers and magazines would do more for the cause of sound finance by coming forward and asking that this subsidy which favors them so greatly be removed than they could do by writing so many editorials that if laid endwise they would reach from Eastport to San Diego. I am still hoping that this support may be forthcoming. The direct-mail advertisers who take the huge subsidy on third class mail are also commonly strong opponents of subsidies in general, as are the leading officers of the big mail-order houses. Thus far, to put it mildly, these gentlemen have not been strong supporters of removing the subsidies from which they themselves profit.

These various groups advance four main arguments against increasing the postal rates on their type of mail. (1) That the postal system of cost accounting is so poor that the deficit figures which have been given are unreliable; (2) That the inefficiencies of the Post Office should be removed before rates are increased; (3) That their type of postal matter is educational and hence needs to be subsidized; (4) That since so many other groups are being subsidized by the government, it is, therefore, proper for them to be subsidized also.

Let us deal with these contentions in order. There are perhaps inaccuracies in the postal accounting system, although it has been in operation for many years and is subject to outside scrutiny and audit. But even at the worst, errors in the figures could not account for the major part of the apparent loss. For as we have shown, estimated costs were over six times the revenue. This is indeed shown by a study of the rates themselves.

The efficiency of the Post Office is in general fairly high but it could be improved. Many rural routes which were sufficiently long in the horse and buggy days are too short for the automobile age and could be consolidated with no loss of efficiency. The use of bicycles could also speed up the delivery of mail in the cities and improvements could be made in the sorting of mail. Such savings as these are, however, contemplated in proposals which I shall make later in this article on the reduction of personnel. Even if this is done, however, the losses on these types of mail will be very heavy.

It is also, of course, true that men and women need newspapers and magazines for information and education. I would not greatly object to some subsidies if this were all that newspapers and magazines did. Even here, however, it would be better if as established commercial ventures they stood on their own feet. But these periodicals are also advertising vehicles and really make their money by selling advertising space. During 1948, the weeklies *Life* and *Time*, sold respectively \$77 and \$24 million of advertising while the *Saturday Evening Post* and the *Ladies' Home Journal* sold \$62 and \$25 million respectively. There were, indeed, no less than 21 magazines whose advertising revenues were above \$5 million for the year.⁴ Our present postal rates, therefore, largely subsidize the advertisers and the sale of advertising space. I see no good reason for this. The public money can be spent for better purposes. It is proper to have the rates on second-class matter graduated according to

³From testimony of Jesse M. Donaldson, Postmaster General of the United States, before a subcommittee of the Senate Committee on Post Office and Civil Service, *Hearings on adjustment of Postal Rates*, Mar. 14, 1949, p. 4.

⁴Figures from *Advertising Age*, Feb. 28, 1949.

the proportion of advertising matter which they contain, but in the interest of federal economy and a balanced budget, the subsidy as a whole should be eliminated.

The case is even stronger in the case of unsealed advertising circulars (third-class) and parcel post (fourth-class). With the single exception of books the educational content in these types of mail is extremely low. They should pay their way.

The final argument that we should not discontinue such subsidies until we have eliminated all others is in itself virtually a confession of guilt. For it is seldom possible to remove all abuses at once and if we cannot do away with one until we do away with all, we will never do away with any.

2. Reduction of Government personnel of from 8 to 10 percent—\$550 million.

There is no doubt that there is a large degree of overstaffing in the civilian as well as the military branches of government. This is the result of very natural causes. In the first place, virtually all executives in private as well as in public employ want to have large staffs around and under them. They think their own work is so extremely important that they need many co-workers to carry it out. Then, too, a large staff feeds the sense of self-importance of the executive and gratifies his ego. In private business, however, this tendency is at least partially restrained by the profit motive. If there is overstaffing which either brings losses or reduces profits, the private administrator is likely to be questioned rather severely by the members of the board of directors or even by the stockholders. In public service, however, no such check operates. The men who inflate the staffs do not pay the bills. The community of interest among the public administrators prevents self-discipline and there is a general tendency towards a mutual covering up of faults. The restraints which private business imposes upon the egomania of executives are, therefore, largely absent in government.

There are, indeed, direct economic incentives for public executives to pad their forces. While the Civil Service Commission will undoubtedly deny the charge which I am about to make and while there are no explicit printed rules to support it, it is nevertheless a fact that in many units, sections, divisions, and bureaus, executives are promoted in the Civil Service grades largely according to the number of persons they have under them. This furnishes a powerful economic incentive for administrators to build empires in order to raise their status and their standard of living. This tendency toward overstaffing is, therefore, multiplicative and, as in military life, it tends to become more and more pronounced as one moves upward through the successive echelons.

A major surgical amputation is, therefore, needed for the civilian branches of government similar to that which is now being put into effect in the military. In all probability decisive action will have to be taken by Congress to clear up these abuses. This prospect seems to throw shivers down the backs of the believers in the "administrative" state who want instead to have all these matters left to the Bureau of the Budget. I have great respect for the Bureau of the Budget. I know it is manned in the main by competent and hard-working men. The Bureau does an excellent job in representing the annual budget, and it would be impossible for us to transact our business without it. But it is also true that over the post-war years, the Bureau has also shown itself either unable or unwilling to effect any real reduction in personnel and has permitted the general overstaffing to continue. From my experience in Washington, I am inclined to believe there is almost as much fellow-feeling between civilian administrators as there is between the graduate of West Point and of Annapolis, and that is equally impossible for them to reform themselves. On the basis of a considerable amount of study, I have, therefore, come to the conclusion that Congress should order a cut in total civilian personnel averaging from 8 to 10 percent. May I emphasize the fact that this is a proposed average and not a uniform cut for every agency? There are some agencies, notably those regulatory bodies which are most anxious to protect the public interest, which are understaffed. But these are the exceptions.

Since the civilian payroll amounts to about \$6 billion, such a cut would save \$550 million. It could be affected, moreover, without inflicting undue hardship by the simple device of not filling all the vacancies which occur and balancing the force through transfers. Thus, about 5 percent of the federal employees die or retire each year and another 7 percent are released because of the termination of temporary jobs. In addition about 14 percent voluntarily quit.⁵ By the simple device of filling only half of the vacancies, the force could be reduced by the end of the fiscal year by about 13 percent, while the average cut for the year as a whole would be about 7 percent. Then, in addition, the agencies should be asked to discharge the least effi-

⁵ See John W. Mitchell, "Personnel Turnover in the Federal Service," *Personnel Administration*, September 1949, pp. 10-11.

cient 2 percent of their personnel. To help administer this, appeals for non-veterans could be limited to the head of the echelon immediately above that in which the employee is engaged. No curtailment of appeal rights is proposed for veterans. In this way, the force could be reduced by about 9 percent during the fiscal year 1950-51, while the reduction for 1951-52 would actually be as much as 15 percent. I am confident that the cleansing of the payrolls in this manner, and to this extend, would not lessen, but would, indeed, increase the efficiency of our government bureaus. It is vitally important to do this, and there is no better time than the present.

3. Reduction of Excessive Leave Provisions—\$100 million.

Government employees are given 26 working days off each year as vacation leave, and are allowed up to 15 days a year with pay as sick leave. In addition, they are given 8 holidays, and there are commonly around 4 days a year in which they are freed from work because of ceremonies, excessive heat, etc. Since government agencies operate on a 5-day week, this means that about 53 days, or over 10 weeks, can be subtracted from the maximum legal working year of 260 days, leaving about 207 actual required working days. The average government working day is 8 hours, but in Washington, up to 30 minutes each day is given to employees for "coffee time", so that in practice only a 7½-hour day is often actually worked. This means that the average number of legal hours worked in a year can be 1553. Since the average time taken for sick leave is 8 days, rather than the maximum of 15, in practice the average will be nearer 1600 hours. This is 300 hours less than the 1900 which is considered a very liberal standard in private industry.

There are, of course, a certain number of men in the government who voluntarily work much more than this, many of whom are actually working themselves into a state of exhaustion. All honor and credit to these men and women who deserve well of their country. But even the most ardent defender of the bureaucracy would admit that these are the exceptions. They are the sturdy and dedicated spirits who survive against the strong currents toward laxness which government employment seems to bring. In the aggregate, the excess hours which these men and women work is probably more than offset by the general slowing down and in some cases the actual stoppage of work as the afternoon closing hour approaches.

It should be remembered that the government in other respects is also doing extremely well by its public servants. Salary levels have been raised so that they are now in the main quite liberal in comparison with the scales of private industry. During this last Congress, we provided for no less than 600 positions with salaries above \$10,000 a year, and thus rewarded ability and responsibility. The retirement system is liberal. The workers have security, and are protected against business depressions, and capricious discrimination by their superiors. Compensation for accidents on the job is as liberal as that in the most progressive states. By giving to workers the right to accumulate unused vacation credits up to a total of 60 days, employees are given a cushion when they lose or leave their jobs. Since they can draw "leave on leave" this cushion can, indeed, amount to nearly 67 days pay or a full 3 months. Similarly, the ability to accumulate annual sick leave up to 90 days, provides protection up to at least 4 months.

Now, I want the government to be a liberal employer and to be generous in its treatment of its workers. But it should not allow employees to exploit the taxpayers and the community to obtain undue privileges. The present system of granting 26 days of annual vacation leave is such an excessive privilege. When it first begun, government agencies worked a 6-day week, and the system provided a month's vacation, but now that the government works a 5-day week, it is the equivalent of 5½ weeks of vacation. Indeed, by including the initial week-end, this can become nearly a 6-week vacation. I know of no private business which gives such a long vacation, except college teaching where faculty members are expected to do research, and I see no justification for it. If we reduced this to an average of 20 days we would preserve the original intent of a month's leave. Vacation leave might indeed be varied according to length of service with employees with 1 to 3 year's seniority receiving 2 week's leave, those with from 3 to 5 years service, 3 weeks, and those with more than 5 years would receive the full 4 weeks. These provisions would reflect the most liberal vacation allowances given to employees by private industry.⁶

In a similar way, the maximum sick leave in any one year could be reduced from 15 to 12 or 13 days, and thus preserve the original intent of granting 2½ weeks for this purpose.

⁶Comprehensive data on vacation allowances in private industry was not available, but selected studies were made by the National Industrial Conference Board which appeared in Management Record for February 1949.

Reforms of this character (removing at the same time the present discrimination in these matters against postal employees) would save \$100 million a year. They should be effected.

4. Reduction of Appropriations for Rivers, Harbors, and Flood Control—\$300 million.

These appropriations are under the heading of the Civil Functions of the Army. They are, however, the old rivers and harbors, or "pork barrel" bill in modern dress. They are built up primarily by coalitions of interest along the lower reaches of our rivers and on the seacoast. Some of the projects are worthy. Many are not. To the degree that they are desirable, they can be better carried out in periods of depression and high unemployment. Great savings can be made here and the present appropriation of \$670 million can be reduced for 1950-51 by \$300 million.

5. Slowing up the Rate of Construction of Roads and Dams—\$150 million.

In a period of comparatively full employment, we should slow down our rate of constructing roads and building dams. While these projects may often be worthwhile, we should decrease them in a period when we need to curtail government expenditures. During the current year we will spend over \$900 million for these and, while there are war-time arrearages on roads, it would seem that a reduction of \$150 million for 1950-51 would be prudent.

6. Elimination or Reduction of Subsidies on Silver, Flax, Potatoes, etc.—\$200 million.

We are now spending about \$33 million a year to buy silver which is not needed as an addition to the nation's monetary supply. We shall similarly be spending large sums to buy up flax when we already have huge quantities of its by-product, linseed-oil, in government storage. The potato subsidy has developed into a scandal for 2 years in succession. There is no basic justification for these and certain other subsidies, and we should be able to save \$200 million at a minimum. We may, indeed, be able to save more.

7. Economies From Adoption of Important Recommendations of the Hoover Commission—\$150 million.

The Hoover Commission in the main contented itself with recommending clearer groupings of functions and more definite lines of responsibility and authority. It, therefore, primarily dealt with organization charts rather than with specific methods for saving money. These charts are important but more important is the will to save on the part of both administrator and Congress. With this will, a great deal of waste can be cut out, even if the grouping of functions is overlapping and diffused. Without it, even the best set of organization charts will not give real savings.

Two proposals of the Hoover Commission, do, however, open the way to appreciable economies. (1) The proposed consolidation of all the engineering functions of the government into one agency, preferably in the Department of the Interior, and (2) the recommended consolidation of all agencies dealing with transportation and communication into one body so that the problems of railroads, shipping, airlines, roads, and possibly the air waves, can be brought together under one general head. It is not unreasonable to believe that total annual savings of around \$150 million could be effected by such measures.

8. Reduction in Amounts to Extend the Lending Power of Federal National Mortgage Association—\$800 million.

The institution which has grown in recent months like the beanstalk in "Jack, the Giant Killer" has been the Federal National Mortgage Association, familiarly known as "Fannie May". This institution was originally intended to be an intermediary for FHA and Veterans Administration loans and to help out in periods of depression. It was instituted at the request of the private mortgage loan industry. It has developed, however, into a dumping ground for loans on veterans' and FHA housing which, though guaranteed as to principal, private banks are unwilling for one reason or another to hold. Up to the end of November 1949, FNMA had loaned approximately \$1.6 billion and additional loans were being made at the rate of around \$125 million a month. It is expected that the requested rate for 1950-51 will be nearly as great or somewhere around \$1 billion.

Now, by Congressional decision, such loans are treated as current operating expenditures although, if we were to follow standard accounting procedure for private business, they would be listed as capital investments.

Pending further analysis of the proper role of FNMA, it would seem wise at least to slow down the rate of growth of this institution and by adjustments of the interest rate or otherwise seek to have private lending institutions assume more of the

loan. This is particularly desirable in view of the fact that building workers are rather fully employed and that large additional credits for these purposes would either inflate the already too high cost structure of building or prevent needed cost reductions. I suggest, therefore, that the amounts extended for such purposes be reduced by \$800 million.

The suggested savings over the 1949-50 figures, which have been outlined, total \$5.4 billion. This would bring the national expenditures for 1950-51 down to about \$38 billion. Since business conditions for 1950-51 should, with the same tax rates, yield revenues at least 2½ percent greater than those for 1948-49, this would mean that receipts should be close to \$39 billion.⁷ This would not only eliminate the deficit but should show a surplus of \$1 billion.

Perhaps half of this should be earmarked for added expenses connected with federal aid for education, the beginnings of Point Four for the backward areas of the world and for any extraordinary developments in the field of atomic research. But even with the inclusion of these added items the budget for 1950-51 should either break even or actually show a small surplus.

A further surplus could be achieved with an attendant reduction in the public debt and the checking of possible inflationary influences by one or both of the following measures: (1) tightening up our tax laws and enforcing them more vigorously and (2) further reducing or eliminating subsidies paid to special groups.

There is still a great deal of evasion of income taxes which could be reduced by hiring more collectors. In addition, as Senator Tobey and others have shown, there has been a great abuse of the so-called charitable trusts. It is, indeed, shocking that so many colleges and universities have made themselves partners in tax-dodging devices of this kind. It has been estimated by competent authorities that somewhere between \$500 million and \$1 billion of revenue could be added if these gaps in the nature and administration of our tax laws were filled.⁸ This could be used either to reduce the debt or to reduce the war time excise taxes.

In addition to the subsidies mentioned above, further probing should reveal additional savings. It is possible, for example, that the railroads and airlines are being greatly overpaid for carrying the mails and that excessive subsidies are being paid shipbuilders and shipowners.

The whole question of farm subsidies, which has scarcely been touched on in this article, deserves the most careful study to see if substantial savings cannot be obtained there. With the passage of time and as the veterans of World War II gain more of an economic toe-hold on life, we may also expect payments for veterans benefits to decrease. Without decreasing the opportunities for veterans, this tendency should, indeed, be at work in 1950-51.

IV

If we act with intelligence and courage, we can thus balance the budget for 1950-51 and, indeed show an actual surplus. Thereafter, unless the international situation becomes worse, we can devote the increased revenues from the rising national income to the double purpose of reducing the proportionate rate of taxation and promoting human welfare.

But the next few months will be critical. Lip-service to the idea of economy will be uttered everywhere, but the opposition from special-interest groups to specific savings is likely to be great. Newspapers and magazines will be reluctant to give up their subsidies. Government employees and their organizations and friends will be hostile to cuts in personnel and vacation privileges. Chambers of Commerce will want levees and rivers and harbors projects, and the cement interests will look askance at diminishing the rate of building roads and dams. Silver interests will cling to their subsidies and the shipbuilders, ship operators, and airlines have always shown an attachment to the public treasury. The general public and the Congress will have to rise above narrow group and sectional interests and put the national interest first.

In short, the problem of balancing the budget and of adopting a sound fiscal policy is not merely economic. It is to an even greater degree a moral issue. We shall need a proper sense of values and a high degree of ethical self-restraint if we are to reach our goal. But that is one of the challenges of democracy. It both demands and elicits

⁷The President's budget, however, estimated receipts at present rates of taxation for 1950-51 at only \$37.3 billion.

⁸Some of the ways in which the tax laws could be tightened were indicated by President Truman in his message of Jan. 23, 1949; namely (1) correction of the excessive depletion allowances for oil and gas wells, (2) tax exemptions granted educational and charitable organizations or business enterprises, (3) tax exemption of insurance companies, and (4) the use of separate corporations for single moving pictures.

a higher degree of morality than other systems of government. However gloomy short-run prospects may be, I am still an optimist on the fundamental good sense and civic decency of the American people.⁹

[From The Washington Post, May 14, 1992]

THE LIBERAL CASE FOR A BUDGET AMENDMENT

(By Michael Kinsley)

"It is the Congress that tells the executive how to spend every dime," said President Bush, attacking "the spending habits of the Congress" at a Bush-Quayle fundraiser the other day.

To call this hoary Republican bluff is one reason I'm for Sen. Paul Simon's balanced budget constitutional amendment. Each year, it declares, "the President shall transmit to the Congress a proposed budget * * * in which total outlays do not exceed total receipts." Neither Ronald Reagan nor George Bush has ever come close.

The amendment also would require Congress to enact a deficit-free budget, unless a three-fifths majority in both houses voted not to. Congress, terrified of the sour public mood, is near-certain to pass some kind of balanced budget amendment next month. But voting for a balanced budget amendment is not just a desperate short-term political expedient. For Democrats, it is good long-term politics.

The voters are hypocrites about federal spending: hating it in general, cherishing it in the particular. The deficit is the concrete expression of this voter hypocrisy. Politicians of both parties cater to it. But by and large, it is Republicans who since 1980 have made this hypocrisy the central feature of American politics and Republicans who have benefited politically from it.

A balanced budget amendment, if it worked, might lead to lower spending or higher taxes or some combination. But at least it would lead to an honest debate. That would not just be hygienic. It would be helpful to the party that's been losing the dishonest debate of the past decade.

Of course, mere partisan advantage is not a good enough reason to amend the Constitution. There are those who think that the goal of a balanced budget is neither necessary nor wise. And there are those who support the goal but doubt the means.

The argument against the desirability of a balanced budget has many byways, but the main point is the traditional Keynesian one that the stimulus of a deficit should be available during recessions: The proper goal is balance over the course of an economic cycle. Simon's three-fifths escape clause is intended to allow for deficits during bad times. If exercised promiscuously, this escape clause could make the amendment worthless. But the medicine is there if needed.

What's driven some liberals to support a balanced budget amendment, however, is the realization that deficit spending has become a medicine we Americans can't be trusted with. We use it when we're sick, then when we're healthy we just increase the dosage. When, inevitably, we get sick again, even gargantuan doses don't have their usual therapeutic effect. Even to use this drug properly in the future, we first will have to clear it out of our system.

The deficit also makes new forms of government activism nearly impossible. If liberal politics is to be anything more than a holding action ("reactionary liberalism," in Kevin Phillips's devastating phrase), the nation's deficit addiction must first be cured.

As a general rule the Constitution ought to dictate the procedures of democracy and the protection of individual rights, not specific policy outcomes. As Justice Holmes famously put it, "a constitution is not intended to embody a particular economic theory. * * * It is made for people of fundamentally differing views."

But have you read the Constitution lately? Many of its clauses address concerns that now seem trivial. See the Third Amendment, about quartering soldiers. We should only be so lucky that fiscal responsibility seems a *passe* issue in future years. And the balanced budget amendment, despite its name, is arguably procedural, not substantive. It doesn't mandate a balanced budget, but amends the legislative process to counteract the current bias against one.

⁹As I was finishing this article, I received a letter from the President of the village of Winnetka, IL, saying that the governing branch of that town believed that the new federal Post Office for that community should not be constructed because the money could better be used to reduce the debt. I find this sense of responsibility increasing everywhere in my own state.

Robert Reischauer, head of the Congressional Budget Office, calls the balanced budget amendment a "cruel hoax" on the public because—like Gramm-Rudman before it—it substitutes procedure for substance. It allows politicians to pretend they're addressing the deficit while actually putting off the painful slicing for later. (The amendment takes effect two years after ratification by the states, which also could take years.)

Reischauer is right that the amendment is a hoax on the public, which is not being told what a balanced budget would actually entail. But is it a cruel hoax? It would be if the three-fifths escape clause became a routine exercise. But if the amendment actually produced genuine fiscal discipline, even four or five years down the road, it would be a kind hoax, not a cruel one—sort of like enticing a beloved relative into a drug treatment program.

It is cowardly, to be sure, for today's politicians to support a balanced budget amendment instead of actually taking action toward a balanced budget. But that cowardice will catch up with them one way or another. They'll either have to face the music in four or five years or retire in order to avoid it. In fact, the balanced budget amendment could make that other constitutional cure-all—term limits—superfluous.

[From The Washington Times, May 11, 1992]

YES ON THE BALANCED BUDGET AMENDMENT

(Editorial Comment)

Tis the season for constitutional amendments. Last week, Michigan became the 38th state to ratify the Madison Amendment, which forbids congressmen and senators from getting a pay raise between elections (good idea). Sen. David Pryor, for the second time, has introduced an amendment to abolish the Electoral College that elects the president (bad idea). And Larry Craig became the fourth member of the Senate to introduce a balanced budget amendment to the Constitution.

Four versions of the amendment are under consideration in the Senate, with one companion to Mr. Craig's in the House. Mr. Craig's measure will accomplish two things the others won't. First, it requires the Congress and president to agree on an estimate of total receipts for the fiscal year, and that agreement must be ratified by a vote and signed by the president. In short, the figures will become law. Second, the debt limit can't be increased unless three-fifths of the members of each House vote aye on the record. Otherwise, the four amendments are very similar. Federal spending cannot exceed revenues unless three-fifths of the whole membership of each House casts a roll-call vote to do so. The president must submit a balanced budget to Congress. Congress can waive the amendment's provision if it declares war. All tax increases must be approved by a roll-call vote.

The time has come for Congress to pass a balanced budget amendment. Although editorials in this space have opposed such amendments in the past, and although an amendment is no panacea—if lawmakers are determined to work their way around it, they can—it has become apparent that something needs to be done to concentrate the government's mind on keeping the country out of bankruptcy court. Taxpayers are facing \$400 billion annual deficits, nearly \$300 billion in annual interest payments and a total of \$4 trillion in national debt. Entitlement spending, which is non-discretionary, is consuming the lion's share of the federal budget. As Mr. Craig says, "anyone in their right and rational mind must agree" these figures cannot keep rising indefinitely without killing the economy and wreaking havoc in government.

Not everyone agrees. Opponents of the measure say too many programs would be cut and the economy would crash. Some conservatives say the amendment makes it too easy for Congress to raise taxes. All three arguments must be rejected.

The amendment will force Congress to prioritize spending. Congress gets away with funding wasteful, outdated or ineffective programs because it can borrow the money, meaning it doesn't have to raise taxes. As Rep. Robert Smith of Oregon, who is a leader in the House effort to pass an amendment, points out, if people who want pet projects are faced with higher taxes to pay for them, they'll think twice about asking for them.

Second, the economy isn't likely to crash because the government *doesn't* suck the life out of it by accounting for a quarter of GNP and borrowing heavily from the private sector. The contrary view, which is the worst sort of Keynesian economics, is an argument most frequently heard from those who have a vested interest in keeping tax dollars rolling into big government.

Lastly, if conservatives insist on waiting for the perfect amendment, they're going to be waiting a long time. A competing proposal—and one that is clearly preferable—would require a three-fifths vote by both the House and the Senate on any tax increase. Proponents should try to insist on a recorded vote on this provision. It would generate a useful record of those who want to make it harder to raise taxes and those who want to make it easier. But the measure is likely to lose, and conservatives should not consider it a deal-breaker. A balanced budget amendment will still be useful without it. If conservatives are worried about losing a fight in which they say, "I will uphold the U.S. Constitution by cutting government spending," to people who say, "I will uphold the U.S. Constitution by raising your taxes," they have been inside the Beltway too long. Voters are not going to put up with higher levels of taxation. And if they are, well, so be it.

The American people are more disenchanted with Congress than they have ever been, and the men and women who work on Capitol Hill know it. They feel that it would be useful to achieve something. Heck, anything. That's why a balanced budget amendment now has a better chance of passage than ever. There's no time like the present.

[From the Chicago Tribune, May 10, 1992]

A CONSTITUTIONAL ANSWER TO DEFICITS

(Editorial Comment)

The federal government borrows an average of \$1 billion a day to feed its addiction to spending, the result of a shameful failure of leadership by the White House and Congress. The national debt is close to \$4 trillion, and the government can't even begin to whittle it down until it halts the destructive, 23-year run of deficit budgets.

Congress won't do it. The lackluster leadership can't make a budget decision that might raise the hackles of a special-interest group. So Congress goes its merry way, guaranteeing that the budget has something for everyone and borrowing to pay the tab.

The White House won't do it. Despite President Bush's vow to achieve a balanced budget, his administration each year has submitted budgets that require heavy deficit spending.

It's quite clear that the federal government won't get its financial house in order simply through its own sense of responsibility. Something more is needed.

The Senate is expected to vote soon on a constitutional amendment to require a balanced budget. Such an amendment, first proposed in 1936, has been close to approval for the last 10 years, but each effort has fallen short of the two-thirds majority in each chamber needed to send it to the states for ratification.

This measure is fraught with dangers, but, sadly, it seems to be the only prayer the country has of wrenching government out of its profligate ways.

Support comes with a sense of tragedy. Because Congress and the president haven't carried out the trust placed in them to run the nation responsibly, we have to alter the nation's basic charter of government.

Two versions of the balanced-budget amendment are under discussion in the Senate. One, which is sponsored by Sen. Paul Simon (D-Ill.) and has bipartisan co-sponsorship, provides that "[t]otal outlays of the United States for any fiscal year shall not exceed total receipts to the United States for that year. * * *

The president would have to send Congress a proposed budget that meets that requirement, and Congress, in turn, would have to pass a balanced budget.

Two exceptions are allowed: when the nation is engaged in a military conflict "which causes an imminent and serious military threat to national security," or when three-fifths of each house votes to approve a specific deficit amount.

Sen. Robert Kasten (R-Wis.) would add a provision, supported by President Bush, that would also require a three-fifths vote for any tax increase.

Restraints of this sort may seem attractive to voters, but they ought to understand the implications. For Congress and the president to abide by them will mean substantial spending cuts or tax increases or both. And with a constitutional amendment in place, the White House and Congress would not be able, in effect, to simply move the goalposts.

Just to give a sense of the magnitude of the cuts or tax increases that might be required: This year's deficit is projected at \$399 billion; the defense budget, frequently and justifiably spoken of as the source of potential savings, is about \$290

billion. In other words, we could wipe out the Pentagon and still be more than \$100 billion short of a balanced budget.

The most troubling aspect of a balanced-budget amendment is that Congress and the president might shirk their responsibility even in the face of the constitutional mandate. That would invite lawsuits and the probability that the federal judiciary would be drawn into the thorniest part of the political thicket. That prospect can leave no one sanguine.

That will not happen as long as no president is so brazen as to present a grossly unbalanced budget in blatant violation of the Constitution and his oath of office, and as long as Congress does not tempt a crisis.

Neither ought people to be economically naive. By now, virtually everyone recognizes that Lord Keynes was right: It can make economic sense to run a deficit. When the practice becomes untethered from economic reason, however, it can become a prescription for ruin. That, arguably, is what has happened in Washington over the last dozen or so years.

The balanced-budget amendment does not forbid deficits. It merely raises the threshold that Congress must reach to run one. Sadly, that has become necessary because the standard of fiscal responsibility has fallen so low.

One immediate, pernicious result of supporting the amendment could be to let Congress and the president off the hook this year. Tough decisions on balancing the budget could be stalled for years, until the amendment goes into effect. It may take several years for the required 38 states to ratify the amendment.

If, in the meantime, Congress and the White House use this to wash their hands of any significant steps to reduce the deficit, they will deserve to be routed from office. It is just that prospect of more years of unchecked, irresponsible borrowing and spending that makes it necessary for such a radical measure as this.

[From The Washington Post, May 21, 1992]

NO WONDER WE SPEND AND SPEND

(By George F. Will)

With the tides of anti-incumbent sentiment lapping higher and higher, Washington's hands stop trembling only when Washington is wringing its hands in unfeigned horror about the coming constitutional amendment to require a balanced budget. A sufficient reason for ratifying the amendment is the horror it inspires in the political class that has transformed American democracy into "autonarchy."

That word was coined by James L. Payne, a scholar who has taught at Yale and Johns Hopkins and elsewhere. He asked a simple question and in answering it came up with some stunning statistics that he reported in the *Public Interest* quarterly two years ago—and nothing much has changed since then. His question was: Why do members of the House and Senate support so many spending programs? One reason, he found, is that almost no one testifies against spending.

He analyzed the testimony of 1,060 witnesses in 14 hearings on proposed spending. Seven witnesses opposed spending, 39 were neutral—they testified about something else—and 1,014 favored spending. This 145 to 1 ratio reflects Washington's inbred persuasion process.

Payne says that people suppose, because democratic theory teaches, that Congress responds primarily to individuals and groups "out there," beyond the Beltway. Not so, says Payne. "Overwhelmingly, Congress's views on spending programs are shaped by government officials themselves."

Of the 1,060 witnesses Payne studied, 47 percent were federal administrators, 10 percent were state or local government officials and 6 percent were U.S. senators or representatives testifying to colleagues. So 63 percent represented government acting as an interest group.

Another 33 percent were lobbyists for groups purporting to be, and generally perceived to be, private-sector institutions. But, Payne says, many of these groups are "semigovernmental entities." Often their leaders are former government officials socialized in government's benign view of its own motives and competence. Furthermore, many of these groups are extensions of government in that they receive government contracts and grants. He cites the National Council of Churches, the National Education Association, the League of Women Voters, the Sierra Club and other environmental groups.

Government's peculiar persuasion process also includes billions of government dollars spent hiring consultants to evaluate government programs or the need for programs. These consultants are not famous for frowning on the work of the govern-

ment agencies that hire them, any more than the agencies are famous for hiring politically unsympathetic evaluators. The evaluators are socialized for sympathy. Many are former government officials inclined to favor what government wants: more. An evaluator who wants to be invited back to the federal banquet will, when confronted with a failing program, prescribe "better management" and more money.

Payne says that when he discussed his 145-1 finding with congressional staffers they were surprised—surprised it was so low. Payne also found—no surprise, this—that among representatives and senators, Republicans as well as Democrats, support for spending increases as tenure does.

There are two reasons for a broad correlation between length of service and enthusiasm for spending. One is the socialization into the government mentality. Another is that spending is the principal way members achieve long tenures.

Today, for example, the ranking Republican on the House Appropriations Committee, Joseph McDade, is in serious legal trouble but no political trouble. He has been indicted for racketeering, conspiracy and accepting bribes. He shall be presumed innocent until proven guilty, but he can be presumed guilty of what he boasts about and what causes his constituents to care not at all about his legal troubles: He is a billion-dollar industry for his district.

Pennsylvania's 10th district—Scranton and its environs—used to be coal country. Today it relies on a different kind of extraction, its 15-term congressman's mining of the U.S. Treasury. Federal, state and local governments have collaborated with each other's growth. The scores of millions he has won for Scranton's "Steamtown," the notorious boondoggle of a railroad museum, is just a fraction of the estimated \$1 billion he has shoveled to his voters.

They are not ingrates. Not since 1976 has a Democratic opponent held him below 65 percent of the vote. He was unopposed in 1990. This year he won not only the Republican nomination but also, by a write-in campaign, the Democratic nomination. Next year he will begin his fourth decade as a participant in American * * * what? Democracy? Maybe. But Payne's analysis of Washington's incestuous closed circle of government in conversation with itself led him to muse about a question of typology.

If rule by a king is monarchy, and rule by a single individual is autocracy, and rule by a few is oligarchy, and rule by the people—the demos—is democracy, what word describes government that controls itself? Payne suggests "autonarchy."

Ugly word. Ugly fact. Good reason for a balanced budget amendment.

[From U.S. News & World Report, June 1, 1992]

BALANCE THE BUDGET—BY FORCE

(Editorial Comment by David Gergen, Editor at Large)

In one of his pithier observations, Winston Churchill once said that "Americans can be counted on to do the right thing, after they have exhausted all other options." The politicians of this country have now exhausted a raft of different options to bring our federal finances under control—deficit limits, tax increases, caps on domestic spending, cuts in defense spending—but the nation's budget remains shamefully out of whack. The time has come to recognize that the right thing to do is something we have long resisted: Amend the Constitution so that Congress and the president are required to balance the budget.

A balanced-budget amendment has always represented an indictment of our democratic system. It openly confesses that our elected representatives are incapable of making rational, tough-minded decisions on their own and must be strapped into a straitjacket by force of law. It says that as citizens, we are so unwilling to curb our appetites for more services and fewer taxes that we penalize any politician who demands self-discipline. As Sen. Phil Gramm of Texas says, "Everybody wants to go to heaven, but nobody wants to do what it takes to get there."

Yet for all the inherent flaws and dangers of an amendment, an honest look at our past behavior and the future burdens we are imposing on our children makes a compelling case for its adoption. Isn't it better to accept a forced diet than to gorge ourselves to death? Consider: In the first 175 years of our republic, we balanced the budget or recorded a surplus 60 percent of the time. But since then, as government has exploded in size and scope, we have balanced the books less than 4 percent of the time. In the first 20 decades of the republic, we accumulated a total national debt of \$1 trillion; in the past decade, we more than tripled that amount. From 1950 to 1980, Washington's borrowing soaked up less than 10 percent of our national savings pool; since 1980, federal deficits have sucked in roughly two thirds of our pri-

vate savings. As a result, our rate of gross investment has been too low (in recent years, half of Japan's as a percentage of gross domestic product), our interest rates too high, and now our job creation is too slow. Total interest payments on the national debt will climb in the next fiscal year to \$315 billion, the largest single item in the budget; of that, Washington will send some \$40 billion to foreign creditors, more than it will spend on educating our children.

Momentum is now building in Congress to pass Sen. Paul Simon's budget amendment before the July recess and send it forward to the states, where more than 30 have signaled an eagerness to embrace it. Opponents rightly charge that many in Congress are acting out of desperation, anxiously trying to appease voters with something—anything—before the anti-incumbent mood sweeps them from power. The true test to apply to a candidate this fall is not whether he favors an amendment but whether he also shows constituents what services he will cut and what taxes he will raise.

To reach balance will require wrenching changes, especially in federal services. Since 1979, contrary to popular myth, federal spending has shot up from 20 percent to 25 percent of GDP, a level we haven't seen since the aftermath of World War II. Double-digit inflation has pushed the cost of Medicaid and Medicare to \$200 billion this year; these costs will escalate to \$600 billion in a decade. A balanced-budget amendment will clearly bring a crunch in Medicare and Medicaid, prompting the biggest overhaul of health care in this century. As it decides where to cut, Washington must also decide what priorities may demand more resources. How, for example, will we become a more productive, cohesive nation unless we fully fund Head Start? Inevitably, we must face up to the prospect of higher taxes.

But we can no longer flinch from reality; we can no longer afford the illusion that we can borrow our way to prosperity. President Bush, who shares responsibility with the Democratic Congress for the dreadful state of our finances, should now work with Capitol Hill to ensure that an amendment to the Constitution is carefully and wisely drawn, that the country is fully informed of the consequences and that we move forward immediately—no more *mañanas*—to restore our financial solvency. Somehow 49 out of our 50 states have learned to live within laws requiring balanced books; surely Washington can do the same.

[From the Richmond Times-Dispatch, June 8, 1992]

A CRUCIAL AMENDMENT

(Editorial Comment)

Recently columnist George Will performed a public service. After several attempts to prove the point through reasoned argument, he shifted tactics and instead gave a dramatic demonstration of the country's need for a balanced budget amendment.

Will modestly suggested that perhaps—considering the nearly \$2 trillion national debt—just maybe now is not the time to double the expenditure for public television. Immediately he was roundly denounced, his denunciators thereby proving his point: If the cult of government will not rein in spending for, of all things, *teevee*, then members of government will not rein in spending at all.

Therefore, someone (or something) else must do it instead.

Three proposals to do so currently sit in Congress awaiting imminent debate; none of them is perfect. But any of them would improve upon the present situation, which Americans almost universally find deplorable and generally find quite convenient, since it defers a considerable tax burden to people who are not yet born and therefore are indisposed to object.

A balanced budget amendment at first seemed likely to sail through Congress this year; now doubts and fears about it are beginning to mount. Those who oppose an amendment warn darkly that (1) it couldn't possibly work, and (2) taxes will blast sky-high and social programs will dwindle to nothing—i.e., it *will* work.

They also warn that Washington simply would replace deficit financing with mandates, forcing states to do the dirty work of government. Of course, many mandates are backed up only by threats of withholding federal funds—threats likely to pack much less wallop under a balanced-budget regime. Even so, some top-down mandating seems preferable to running every government program from Washington; a little federalism never hurt a republic yet. Many states, including Virginia and Bill Clinton's own, require balanced budgets.

The best amendment for this republic would draw the best from the existing proposals, thereby requiring (a) the President to submit a balanced budget to Congress, which then (b) could not spend more than it took in, except (c) in the event of war.

National emergency does not make a good exception; government should anticipate emergencies.

Such an amendment would not cure every ill that ails us. But it would constrain growth of government spending, the primary beneficiary of which so far has been * * * more government. (Sixty-three percent of those who testify before Congress in favor of more government spending are themselves members of government.)

It would require the rate of spending growth at least to take note of the rate of economic growth (because even a 100 percent tax rate cannot increase revenue if the tax base does not expand). And it might even put to rest the Keynesian fallacy that the response to every economic or social blip on the national radar screen should be ever-more-massive government expenditures that must, someday, be reckoned up and paid for—even by the unborn.

[From The Dallas Morning News, May 10, 1992]

BALANCED BUDGET—YES! LET'S CONTROL THE DEBT

(Editorial Comment)

It is no secret to outsiders that Washington, D.C., is a fantasyland.

But the highly publicized scandals at the petty, personal level that have electrified a slumbering electorate are dwarfed by a financial malaccounting of the public ledger of epic proportions, nurtured by that magic kingdom's rulers.

The national debt is out of control—and a balanced budget amendment now heading for a vote is the only antidote left.

President Bush and Congress, both proclaiming a desire to balance the budget on the one hand, are with the other busily crafting a budget that in one year adds another \$400 billion in debt. The borrowing needed to cover that one-year deficit totals additional debt of \$1,500 for every man, woman and child in the country, on top of the \$15,000 that is the legacy of past administrations and Congresses. It is a deceitful, irresponsible debt—incurred during peacetime no less—that will burden future generations who are legally bound to pay for it.

The spiraling deficit corrupts the nation's economy by driving up interest rates and cuts the availability of scarce capital needed for business investment. The interest payments now are the fastest growing section of the federal budget, and last year surpassed what we spend on national defense.

The overspending binge, now at a peak, is a co-conspiracy at both ends of Pennsylvania Avenue, guided by a Congress and a president who can't say no.

Until now, they've had a supporting cast of millions—voters who have acquiesced by repeatedly returning the big spenders for another drunken round. But now the heat from the public has become white hot, fueled by the string of scandals and the surging presidential candidacy of Ross Perot, who has made a balanced budget a battle cry. We hope the message is getting through.

We may find out in three weeks when your congressman and senators will be forced to vote on the proposed constitutional amendment to balance the federal budget.

Like the alcoholic who has hit bottom, Congress is rightly recognizing that it has become powerless to control its spending habit. By passing the amendment, it would be asking to be disciplined by the U.S. Constitution to live within its means. It is the same discipline that is well known to state government (the Texas Constitution carries a similar provision) and millions of households across the nation.

The version introduced by Rep. Charles Stenholm, D-Stamford, requires Congress and the president to agree each year on a single estimate of total receipts, with the president then forced to submit a budget balanced at that level. Provisions could be waived if a war is declared and stiffens the vote to authorize deficit spending to a roll-call vote of three-fifths of all members in each house (two-thirds if vetoed by the president). Tax increases would require roll-call votes by a majority of the members of each house. To be approved, the constitutional amendment requires a two-thirds vote in each house and confirmation by three-fourths of the states.

Critics who argue that Congress can wiggle out of any fiscal straitjacket it tailors have a point. The evidence is in the trail of such shredded pieces as Gramm-Rudman-Hollings and the euphemistically called 1990 Budget Reconciliation Act.

That means voters, whose outrage may force this historic step, will have to stand guard to make sure it is not subverted. The temptations to do so will be strong. The amendment will force Washington to make the hard budget choices it has been shirking. Each community will feel the pain, with inevitable cuts taking the good

along with the pork, exposing congressmen and the president to a sharp judgment at the polls.

But the federal government cannot fund everything it is asked to; it cannot honestly afford funding everything it already has.

[From The Philadelphia Inquirer, June 7, 1992]

STOP BUDGET ABUSE—THE BALANCED-BUDGET AMENDMENT IS A BAD IDEA WHOSE TIME, ALAS, HAS COME

(Editorial Comment)

The old arguments against a balanced-budget amendment are losing their power to persuade. Yes, it would put the federal government in a straitjacket, but that couldn't possibly be worse than the hara-kiri of \$300 billion and \$400 billion annual deficits. Yes, Democrats and Republicans are fully empowered to make the hard decisions required to balance the budget without such legal constraint, but they keep cowering. It now appears that the only fiscally responsible action Congress has a chance of taking this year is to pass the balanced-budget amendment. That being the case, it should do so.

With the national debt growing by \$1 billion a day, we believe anyone arguing against a balanced-budget amendment, as we have in the past, has an obligation to explain how fiscal sanity would be restored without it. And, frankly, we've lost heart. As the debt nears the \$4 trillion mark, it's an ever-growing burden on the economy. Since it will weigh heavily on future generations, the politicians who spent the last dozen years *quadrupling* it are, in effect, child abusers. They are dangerous, amoral people who must be stopped.

The responsible course would be to scrap the stay-the-course plan for the fiscal year that begins this October and start making the hard choices that will be required. That would almost certainly involve cuts in entitlement spending, deeper cuts in defense spending and higher taxes. If Congress did that, it could shelve any constitutional amendment that would eventually force it to do the same thing. But the Democrats want to demagogue on entitlements such as Medicare, and both parties are playing politics on taxes and defense.

As the real choice this year seems to be passing the amendment or doing nothing, we reluctantly support the amendment (which needs a two-thirds majority in both houses of Congress). The argument that this would let the politicians off the hook with symbolic action is weak. More likely, passing a constitutional amendment while balking at serious deficit-cutting would expose them as the hypocrites they are. That goes doubly for the amendment's chief cheerleader, President Bush, who has never proposed a balanced budget and has shown no sign that he intends to.

But passing the amendment while doing nothing about the deficit would be more than an exercise in self-humiliation. If the amendment is ratified by three-quarters of the states, which supporters expect would take several years, it *would* force the powers-that-be to balance the budget. As for concern that this fiscal responsibility would be forced precipitously and actually damage the economy, that's exaggerated. The leading versions of an amendment would allow the budget to remain unbalanced if 60 percent of the House and Senate agreed to it.

There's also the possibility that, even before it's ratified, the amendment could serve as the ugly stick that finally forces the politicians to attack the deficit. Once it passed the amendment, Congress would actually have political cover to take actions that would upset a lot of voters: Better to begin eliminating the deficit now, the argument would go.

And who knows? If Congress and the next president make lots of progress in the interim, the states may decide the amendment isn't needed after all.

Senator SIMON. Let me now call on the new ranking member of this subcommittee, and we are very, very pleased to have him as the ranking member, a constructive Member of the Senate, Senator Brown from Colorado.

OPENING STATEMENT OF HON. HANK BROWN, A U.S. SENATOR FROM THE STATE OF COLORADO

Senator BROWN. Thank you, Mr. Chairman. I appreciate the very kind remarks you have made this morning, and I think they are

very insightful remarks that both you and Senator Hatch have made. We have some very distinguished witnesses that will start us off this morning. I would just make a couple of quick observations.

First, last year the gross interest on the national debt was roughly equivalent to our shortfall in the deficit. It literally means if we hadn't had a deficit carried over, in spite of big increases in spending, we could have balanced the budget last year.

Second, capital formation in this Nation is the lowest of any major industrialized country in the world, that is as a percentage of our gross national product or gross domestic product. It literally means we are saving and putting toward the future on a net basis less as a portion of our economy than any major industrialized country in the world, and it literally means that this Nation dooms itself to declining economic fortunes in a very competitive world unless we can turn it around.

Certainly, controlling spending and reducing the deficit are part of it, while not all of it. The growth in productivity in this Nation is ominously low. The growth in net productivity was one of the lowest in the entire world for industrialized countries, and while we still enjoy the highest productivity—working men and women in America are still the most productive in the world—the lead that we have is shrinking dramatically.

There is no single measure that I think could have a greater beneficial effect in changing these, and incidentally forcing Congress to set priorities, than some sort of constitutional limitation on our ability to deficit spend. I am delighted to join you on this subcommittee and delighted to join in sponsoring the proposed constitutional amendment.

Thank you, Mr. Chairman.

Senator SIMON. I thank you, Senator Brown.

We have four distinguished colleagues here—Senator Graham, Senator Danforth, Senator Craig, and Senator Thurmond. If you will please take your places, and unless there is objection I will call on you in the order of your appearance here. Senator Graham, that would entitle you to be first. Seniority, I think, would entitle Senator Thurmond to be first.

Senator GRAHAM. Mr. Chairman, if it would be acceptable, I would like to defer to the Senator from South Carolina, who is always first.

Senator SIMON. Well, if there is no objection, we will do that, and let me just add my personal tribute to Senator Thurmond, who has been fighting this battle for a long time. Senator Thurmond, you have been in the trenches on this one for a long time and my hope is that this year we will have the votes to finally see that dream achieved. Let me call on you at this point, Senator Thurmond.

PANEL CONSISTING OF HON. STROM THURMOND, A U.S. SENATOR FROM THE STATE OF SOUTH CAROLINA; HON. BOB GRAHAM, A U.S. SENATOR FROM THE STATE OF FLORIDA; HON. JOHN C. DANFORTH, A U.S. SENATOR FROM THE STATE OF MISSOURI; AND HON. LARRY CRAIG, A U.S. SENATOR FROM THE STATE OF IDAHO

OPENING STATEMENT OF HON. STROM THURMOND

Senator THURMOND. Thank you very much. Several years ago when I was Chairman of the Judiciary Committee, we passed a constitutional amendment to mandate a balanced budget through the committee, through the Senate, sent it to the House, and the House leaders—Speaker O'Neill and Mr. Wright, the majority leader—got up and they led the movement to kill it. That was the last time the Senate adopted a balanced-budget amendment, although we fell one vote short of its adoption in the Senate in 1986. I am hoping this time we can pass it through the Senate again and that the House will accept it. I want to commend you, Mr. Chairman, for the interest you have taken in this matter, and I am very pleased to work with you and others to try to get this accomplished.

I am pleased to testify today in strong support of a constitutional amendment to require the Federal Government to achieve and maintain a balanced budget. First, I want to commend your efforts, Mr. Chairman, to see this proposal become a part of the Constitution. You have been a great leader in this matter and it is through your work that we have built strong bipartisan support for what has been traditionally viewed as a Republican initiative. Also, Senator DeConcini and Senator Hatch have long been ardent supporters of a balanced-budget amendment, and we appreciate what they are doing to see this measure is adopted. I am glad to see these other distinguished Senators here and I want to commend them for their interest in this matter.

Now, Mr. Chairman, I have introduced a proposed balanced-budget amendment and have also joined you as a cosponsor of a proposal which we agreed upon with proponents in the House of Representatives last year. That proposal, S.J. Res. 41, is essentially the same bill that fell a few votes short of being adopted by the House last year. The Speaker was able to successfully lobby several Representatives who were cosponsors of the bill to turn around and vote against it. Also, this legislation is similar to an earlier bill which in March 1986 received 66 out of the 67 votes needed for Senate approval.

Simply stated, this legislation calls for a constitutional amendment requiring that outlays not exceed receipts during any fiscal year. Also, the Congress would be allowed by a three-fifths vote to adopt a specific level of deficit spending. Further, there is language to allow the Congress to waive the amendment during time of war or imminent military threat. Finally, the amendment requires that any bill to increase taxes be approved by a majority of the whole number of both Houses.

Mr. Chairman, this legislation would provide a significant step to reduce and ultimately eliminate the Federal deficit. The American people have expressed their strong opinion that we focus our efforts

on reducing the deficit. Making a balanced-budget amendment part of the Constitution is appropriate action for addressing our Nation's runaway fiscal policy.

The Constitution has been amended only 27 times in our Nation's history. Amending the Constitution is a most serious matter and of such earnest concern that it has been reserved to protect the fundamental rights of our citizens or to ensure the survival of our system of government. It is my firm belief that the balanced-budget amendment is needed to protect the fundamental rights of American citizens and to ensure the survival of our democratic form of government.

Over the past half century, the Federal Government has become jeopardized by an irrational and irresponsible pattern of spending. As a result, this firmly entrenched fiscal policy is a threat to the liberties and opportunities of our present and future citizens.

The national debt is over \$4 trillion. This would cost every man, woman, and child in America over \$16,000 each to pay off the public debt. Additionally, the Federal deficit for fiscal year 1993 is projected to reach \$327 billion.

Mr. Chairman, in 1957, my third year in the Senate, the entire national debt was less than \$275 billion and there was not a deficit, but rather a \$3 billion surplus. Today, the payment of interest on the debt is the second largest item in the budget. That accounts for the estimate that this year it will take 40 percent of all personal income tax receipts to pay the interest on the debt.

The tax dollars that go to pay interest on the debt are purely to service a voracious congressional appetite for spending. Payment of interest on the debt does not build roads, it does not fund medical research, it does not provide educational opportunities, it does not provide job opportunities, and it does not speak well for the Federal Government. Payment of interest on the debt merely allows the Federal Government to continue to carry a debt which has been growing at an alarming rate.

Mr. Chairman, it is deficit spending which has brought us to these crossroads. Congress has balanced the Federal budget only once in the last 31 years. During my three-and-a-half decades in the Senate, I have been amazed and deeply concerned over the continued growth of government spending. Federal spending continues to eclipse receipts of the Government and this will only exacerbate the deficit problem. A balanced-budget amendment as part of the Constitution will mandate the Congress to adhere to a responsible fiscal policy.

The American businessmen and businesswomen have become incredulous as they witness year in and year out the spending habits of the Congress. Anyone who runs a business clearly understands that they cannot survive by continuing to spend more money than they take in. It is time that Congress understands this simple yet compelling principle.

For many years, I have believed, as have many Members of Congress, that the way to reverse this misguided direction of the Federal Government's fiscal policy is by amending the Constitution to mandate, except in extraordinary circumstances, balanced Federal budgets. The Congress should adopt this proposal and send it to the American people for ratification. The balanced-budget amend-

ment is a much needed addition to the Constitution and it would establish balanced budgets as a fiscal norm rather than a fiscal abnormality.

Mr. Chairman, the tax burden which today's deficits will place on future generations of American workers is staggering. Who are the future generations of American workers? They are our children and our children's children. We are mortgaging the future of generations yet unborn. This is a terrible injustice we are imposing on America's future and it has been appropriately referred to as fiscal child abuse. It is time we show fiscal discipline and adopt a balanced-budget amendment.

Thank you, Mr. Chairman, and thank you, Senator Graham and the other members here who have allowed me to go first. Thank you. Senator Brown, thank you.

Senator SIMON. We thank you, Senator Thurmond.

Senator Graham?

STATEMENT OF HON. BOB GRAHAM

Senator GRAHAM. Thank you, Mr. Chairman, Senator Brown. In the interest of brevity, I would like to make a few extemporaneous remarks.

Mr. Chairman, you and other members of the committee and Senator Thurmond have made a very compelling case for why we cannot continue along the course of deficit finance that has become our habit over the last few years. I will not repeat that compelling evidence.

I think the question for today is, do we require an amendment to the U.S. Constitution in order to accomplish the shared objective of fiscal sanity? The answer, in my opinion, is yes, and for essentially two reasons. One is history. We have seen in the last few years how easy it is to avoid the difficult choices of either reducing spending or increasing revenues or taking other steps that would be necessary in order to bring our books into balance. This is not an amendment which balances the Federal budget. This is an amendment which takes away from us the option of avoiding balancing the Federal budget, an option which has proven to be addictively alluring.

But more fundamental is what is an appropriate provision for our Nation's Constitution. I believe that it is appropriate, as Thomas Jefferson said some 200 years ago, for the U.S. Constitution to essentially have a generational compact, and that is a compact which says that each generation of Americans will be responsible for its own fiscal accounts; that one generation shall not elect to transfer to a future generation its financial responsibilities.

Mr. Chairman, this was not a question which until recently required a constitutional amendment to incorporate into our national culture. For most of the history of this country, that generational compact was accepted. If I could refer to some statistics in the life of my own family, my father was born in Croswell, MI, in February 1885, some 109 years after the Declaration of Independence. On that date, the total accumulated national debt was \$1.6 billion.

I was born in 1936, 53 years later. On the day I was born in November 1936, the national debt had grown to \$33.8 billion. I would say that the generations prior to my father and my grandfather's

generations accepted this responsibility to the Nation's fiscal account.

My first child was born in January 1963, after World War II, after the rebuilding of Europe and Japan, all of the things that are a part of our life experience. On the day my daughter was born, the national debt was \$310.3 billion. My first granddaughter was born in October 1990. When she was born, the national debt had grown to \$3.2 trillion. I had my third grandchild and first grandson born in October last year, at which time the national debt had exceeded \$4 trillion.

So, a generational compact that had been accepted as part of our culture for the better part of 200 years has been crushed by the lack of discipline of the last years. I think, Mr. Chairman, that is the most compelling reason why we need to incorporate this change into our Nation's Constitution.

Mr. Chairman, I would like to make one suggestion for consideration of modification of the amendment. The operative section of the amendment, which is section 1, states:

Total outlays for any fiscal year shall not exceed total receipts for that fiscal year unless three-fifths of the whole number of each House of Congress shall provide by law for a specific excess of outlays over receipts by a roll call vote.

I would suggest that the committee consider a modification to that language which would recognize the appropriateness of specific trust funds as well as the general revenue stream of the Federal Government. The language that I have just quoted essentially would incorporate into the Constitution the concept of a unified budget. That is a relatively new concept in the Nation's public finance. It was only in 1969 that a unified budget was adopted in which all revenues and all receipts were aggregated for purposes of reporting the Federal budget deficit.

I believe that allowing some disaggregation and a recognition of specific programs which have a dedicated revenue source and a specific source of expenditure are in the public interest. I did not realize until the chairman read the quotations of Mr. Jefferson and Mr. Hamilton that they had recognized the fact that if there was a debt which had a specific source of revenue for its expungement that it was a different type of debt than that which we have been laying on over the past several years, which is a general indebtedness without such a specific source of expungement.

One of the benefits of a trust fund is its political accountability. There is a source of revenue, there is a source of expenditure, there is an ability to evaluate whether the public finds that the benefit that is derived, whether it is in the form of highways through the Highway Trust Fund, Social Security benefits through the Social Security Trust Fund or any of the others, is one that they are willing to continue to support.

Second, I believe that the trust fund concept allows for intelligent planning because there is a known set of revenues which can be projected over time against a set of expenditures. One of the areas of which our State is most proud is its very aggressive program of park and environmental land acquisition. For many years, we have had one of the largest programs of any of the States in the Nation, and what has made that program successful has been a dedicated revenue source to the specific purpose and the ability to plan over

a multiyear basis to have an intelligent State program of parks and environmental land.

I think one of the difficulties that we have experienced here at the national level is that without that linkage there has been the inability to do long-term planning, and, in fact, the converse, which is an annual rush to try to get your project in the appropriations bill without an ability to establish its relative priority.

A third reason why I believe that it is appropriate to contain a provision that would recognize the appropriateness of trust funds is the fact that the trust fund accounts have been used in recent years as a mask to disguise the true extent of the Federal budget deficit.

As we know, the current consolidated budget causes the annual growth in our trust funds to be used as an offset against the reported Federal budget deficit. Last year, the budget deficit would have been substantially higher but for the fact that our trust fund accounts grew by approximately \$100 billion. Even taking Social Security off budget, as we have done, still leaves very large trust fund surpluses to constitute that masking.

As I read this article, we will be putting Social Security back into a consolidated budget for purposes of determining whether we meet this test of total receipts over total outlays. The reality is that by removing the trust funds from this account, we are going to be adding additional discipline to the system because we are going to be saying that the general accounts of the Federal Government have to be in balance every year and that there will not be the potential to mask the extent of that deficit by what I think is the improper use of trust funds.

So, I would submit for the consideration of this committee the idea of language which would recognize trust fund accounts as separate items not to be incorporated in the language of total receipts which shall not be exceeded by total outlays for any fiscal year.

Mr. Chairman, I wish to conclude by commending you and the other cosponsors of this legislation, of which I am one, for submitting this important idea at this turning point in American history. I agree with Senator Thurmond that we cannot continue the path that we have been on for the past several years without leaving a crippled nation and an enormous disservice to our children and grandchildren. Congratulations for showing us a different road.

Senator SIMON. We thank you, and I thought your use of the generational statistics starting with your father was a very graphic example of what we have done to ourselves.

Senator Danforth?

STATEMENT OF HON. JOHN C. DANFORTH

Senator DANFORTH. Mr. Chairman, thank you very much. For all the reasons previously stated this morning, I am in agreement with the concept of a balanced-budget amendment. However, I am here to express a very real concern that perhaps the balanced-budget amendment would have an unintended consequence of changing the present concept of separation of powers.

Therefore, I am suggesting that the balanced-budget amendment include in it the following additional language, "Neither the Supreme Court nor any inferior court of the United States shall have

the power to order or instruct the laying or increasing of taxes." The concern that is addressed by this proposed language is that perhaps a future Supreme Court might attempt to enforce the balanced-budget amendment by ordering the imposition of taxes.

I proposed a freestanding constitutional amendment 1 or 2 years ago to address the question of judicial taxation after the Supreme Court in 1990 decided a case called *Missouri v. Jenkins*. That case involved a school desegregation order and the district court in Kansas City, MO, ordered the imposition of taxes in order to pay for what many considered to be a very elaborate program of improving the schools in Kansas City. The improvements included such things as a planetarium and the installation of a model U.N. General Assembly complete with booths for simultaneous translation and a 25-acre farm, and so on.

I am not here to argue the wisdom of all of those ways of improving the school district. In fact, for the sake of argument, let us assume that what the Court was attempting to achieve is socially desirable, but the underlying question is should a court have the power to order the imposition of taxes, and for about 200 years it was assumed in this country that the answer to that question was no, that a court could not do it. But the Supreme Court decided in 1990 that, in fact, taxes could be ordered by a court in order to further the remedy that the court was seeking.

I have offered the amendment previously dealing solely with the question of courts ordering taxes for State and local governments. However, there is nothing in the reasoning in *Missouri v. Jenkins* which would prohibit a court from ordering taxes at the Federal level either. Therefore, if we have a balanced-budget amendment, which in concept I agree with, I am concerned that a court could say, all right, how are we going to enforce the balanced-budget amendment; well, let us do what was approved in *Missouri v. Jenkins*, let us order not the cutting back of the spending, but let us order taxes instead.

Now, the arguments, in my opinion, against judicial taxation are overwhelming. The idea, as a matter of fact, is mentioned very specifically in the Federalist Papers by both Madison and Hamilton, both of whom argued that the courts do not have the power to tax, that that is an article I power; it is vested solely in the legislative branch.

I think that is where it should be. I think that that is where the Founding Fathers intended it to be. I think that that is where it should be as a matter of policy. The Supreme Court has now held otherwise, and I think therefore we should restore the Constitution to what we considered it to be for 200 years. If a court wants to enforce an order, let it do so by the power of contempt, not by the power of increasing taxes.

I do not think that we should invite a court by a balanced-budget amendment to solve the problem which is demonstrated so graphically on those charts and which has been testified to by Senators Thurmond and Graham by ordering taxes to be increased. To me, that is the very heart of legislative power and it is a very, very significant encroachment in the concept of separation of powers.

Therefore, I have the language and I will submit it to the committee, and I also have a prepared statement which I will submit to the committee.

Senator SIMON. We thank you very much and, again, all prepared statements will be entered in the record.

[The prepared statement of Senator Danforth follows:]

PREPARED STATEMENT OF SENATOR JOHN C. DANFORTH

Mr. Chairman and members of the subcommittee, there are many matters about which members of the U.S. Senate disagree. You would be hard-pressed, however, to find even one among us who does not agree that the Federal budget deficit is the biggest problem facing our Nation and a fundamental legislative responsibility. Therefore, I want to make clear from the outset of my statement, my support for a constitutional balanced-budget amendment.

However, I also come today to bring a word of caution. In amending the Constitution, we undertake a responsibility more awesome and far-reaching than we do in enacting other laws. When we add to the Constitution, we must be sure that we do not in some other way detract from it or do violence to its underlying principles. The Constitution must retain its integrity. It must be consistent. And in reviewing the proposed amendment in light of the current state of Supreme Court jurisprudence, I fear that we are courting disaster by inadvertently inviting the courts to forever alter the constitutional balance of power—in particular the power over the purse—among the three branches of government.

To prevent this outcome, I am recommending that some additional language be inserted into the balanced-budget amendment which explicitly and finally establishes what I already thought was implicit in the Constitution: that "[n]either the Supreme Court nor any inferior court of the United States shall have the power to order or instruct the laying or increasing of taxes."

Let me explain the origin of my involvement in the issue of judicial taxation, because my concern is not merely speculative. On April 18, 1990, the Supreme Court actually did confer upon itself and the judiciary the right to tax American citizens. Taxation without representation arrived in this country when the Supreme Court ruled in *Missouri v. Jenkins* that Federal judges have the power to order State or local officials to raise taxes. According to the Supreme Court, judges now can order tax hikes without the consent of the people, or even against their wishes.

In *Missouri v. Jenkins*, a Federal judge overrode State constitutional limits on taxes to fund a "magnet school" plan drawn to overcome the effects of past discrimination. The judge's plan included a planetarium, a 25-acre farm, and a model United Nations wired for simultaneous translations, and it is costing taxpayers several hundred million dollars to implement.

Those who agreed with the Supreme Court's ruling argue that courts must be able to remedy violations of constitutional rights.

Of course. But American courts have carried out their responsibility to protect and enforce constitutional rights for 200 years without wielding the power of taxation. They ordered actions to correct violations. They ordered remedies that required the spending of money. They enforced orders with the power of contempt. Courts desegregated school systems for more than 30 years without judicial taxation.

If judges can tax, there is no meaningful limit to the power of the unelected branch of government. The decision in *Missouri v. Jenkins* is an engraved invitation to every Federal judge to make policy decisions about schools, hospitals, prisons, and whatever else the judge chooses—and then to finance the decisions by ordering that taxes be increased.

And that is wrong. There is a reason that only the legislature, and not the judiciary, is given the power to tax the people. That reason is stated and restated, over and over by the architects of the Constitution.

In the Federalist Papers, Alexander Hamilton and James Madison made explicit that "the legislative department alone has access to the pockets of the people." (The Federalist, No. 48, at 343 (J. Madison)). In Federalist No. 78, Hamilton argued that under the Constitution the judicial branch, which is the least answerable to the people, would also be the least dangerous to the people. As Hamilton explained, judges would have "no influence over either the sword or the purse." (The Federalist, No. 78, at 490 (A. Hamilton)).

Thus, I first introduced a variation of the language I propose today as part of the balanced-budget amendment, as a separate amendment to the Constitution. At that time, 2 days after the *Missouri v. Jenkins* decision, I had on my agenda one goal:

to repair what I believe to be a dangerous new fissure in the bedrock constitutional principles of our government. I wanted to guarantee that no individual who is appointed for life and not answerable to the people would ever again have the power to tax the people.

In June 1990, this subcommittee held hearings on my proposed amendment and, as was apparent from both the hearings and from statements made by many of my colleagues on the Senate floor, many Senators also favored some legislative response to the judicial overreaching embodied in *Missouri v. Jenkins*. However, there were those who argued against a legislative remedy, be it amendment or statute. In reviewing the statements and testimonies, it seems to me that the arguments against were two. First, that the Court was right and that there are times when judges should be allowed to lay taxes. Second, that even though the courts should not be permitted to tax, the likelihood of courts doing so is so tenuous, so rare, that a constitutional fix is unwarranted.

I have already described above why I cannot accept the first argument. It is completely antithetical to the balance of powers in our Constitution.

However, it is the second argument that brings me here today. We are on the verge of creating an entirely new class of constitutional rights. And, in order for the balanced-budget amendment to have substance, there should exist some enforcement mechanism. However, even if Congress fails to balance the budget, even when it is in violation, the legislature cannot abdicate its own responsibility to another branch. In our system of government the ends do not justify the means. Even favorable results do not justify abuses of process. Simply put, one violation of the Constitution, no matter how wrong, does not justify a second violation as its remedy.

I have stated that I support the proposed amendment. Nonetheless, it is crystal clear that, if the courts' taxing power is not expressly refuted by the language of the amendment itself, the door that the court cracked open in *Missouri v. Jenkins* will be blown off its hinges. No longer can the argument be made that taxation as a court-ordered remedy is remote. On the contrary, it is the most likely response to the very first unbalanced budget. As the distinguished constitutional scholar Prof. Laurence H. Tribe testified last June before the Committee on the Budget:

[W]hat remedy could a Federal court then decree? [If the budget is not balanced under this amendment.] The Supreme Court of the United States in *Missouri v. Jenkins* a couple of years ago held that judges may have the power to mandate higher taxes if needed to force the Government to comply with the Constitution. * * * I find it troublesome, but it is the law. Talk about taxation without representation, unelected judges mandating higher taxes. (S. Hrg. 102-693, at 10.)

Last year, I expressed my reservations about the balanced-budget amendment on the Senate floor. I said that my support was conditioned on the amendment not putting the judiciary into the business of levying taxes and making appropriations. My colleagues who had worked on the amendment reassured me that it contained language sufficient to prevent this. This year, however, I am asking for more explicit language at a very early date. There is no reason my proposed language or other similarly clear language cannot be included—except of course for those who think judges should be able to tax the people.

We cannot permit the Court's encroachment to continue. Taxation by judicial decree cannot be reconciled with American history, the Constitution, or any principles of democratic self-government. Judges who are elected by no one and who serve for life should not be able to order new taxes. Judicial taxation creates power for one person to decree a solution to a problem and raise taxes as needed to pay the bills. For 200 years, such a concentration of power has been unthinkable. No doubt, government by decree can be efficient, for purposes that are good or not so good. But government by decree is abhorrent to American values because it is inherently undemocratic. When Americans lose the right to say yes or no to taxes, they lose the basic power of self-government.

Senator SIMON. Senator Craig?

STATEMENT OF HON. LARRY E. CRAIG

Senator CRAIG. Mr. Chairman, let me thank you for holding hearings on S.J. Res. 41. As a cosponsor of that legislation, let me first of all congratulate you on the evolution and the time that it has taken us to get to this point, not in times of money or times of deficit or debt, but the ability to bring together a variety of inter-

ests over the last decade, as I know you have been involved with myself. Senator Thurmond mentioned he had been involved in this issue for some 30 years.

We have before us a piece of legislation that has evolved as those groups and ideas and concerns came together, and let me tell you I welcome the thoughts of Senator Graham and Senator Danforth who have been very concerned about this issue as we have worked it. I worked it for nearly a decade in the House with Charlie Stenholm.

I will never forget the day in 1982 when former Congressman Barber Conable of New York, who had been championing the cause of a balanced budget for a good number of years, said to a relatively freshman Congressman, this is an issue that you have to become involved in, for if you fail to or if we fail to ultimately build the momentum that will force a constitutional balanced-budget amendment out of this Congress for the people's consideration, we will have failed our future generations.

Well, of course, many of us know that Congressman Conable went on to be president of the World Bank, but he remains phenomenally interested in this issue, and from that time we have created organizations. Many of us have traveled around the country to debate it and to provide information to State legislatures as we have tried all avenues to force a realization in this Congress of what must be if we are ever to reinstate fiscal responsibility of the kind that I think our Founding Fathers intended.

I am not suggesting that S.J. Res. 41 is a perfect document in any sense of the word. What I am saying is it is as best as we come together to agree on in a bipartisan way, and that is the end product of about a decade worth of crafting. So, it is issues of the kind of trust funds that Senator Graham spoke to, the question of the ability of the court if we arrive at an impasse in the legislative branch to deal with this issue, and those are very real concerns that I think it is responsible for this committee to review.

Mr. Chairman, last summer many of us remember our concern for Senator Jesse Helms as he went home for the purpose of open heart surgery. What does that have to do with the balanced-budget amendment? Well, prior to him leaving us for an extended period of about 2 months, he had been engaged in a practice of every morning coming to the floor of the Senate and quoting the national debt of the day. He asked if I would assume his responsibility; that his staff was visiting on a daily basis with the Treasury and that they could provide me with the quotes if I would merely go to the floor and submit it for the record.

So, starting in July, and through July and August, I did this through to the recess or the adjournment, and it is an activity like that that probably indelibly etches in your mind what many of us forget we are doing here on a daily basis. We really do forget these kinds of charts and these kinds of impacts on families and children and our Nation's future. It is the proverbial bullfrog in the pan of cold water and the water growing progressively warmer until such time as it is boiling and the bullfrog thinks he remains comfortable and ultimately he is ready for soup. It was that kind of interesting experience last summer.

In July, the national debt was \$3 trillion, 800-some-odd billion, and I remember going to the floor and quoting those and ticking off those figures and sometimes getting a little confused as I got out toward the end of whether I was dealing with billions or millions or hundreds of thousands.

About the first of August, it broke across the \$3 trillion line into the \$4 trillion, 100-some-odd millions of dollars, and then the revenue picked up and it broke back across the line to the \$3 trillion mark, and then back across in late August and early September into the \$4 trillion and it stayed and it began to grow beyond that.

It is probably those kinds of experiences that really begin to put in perspective what we are failing to do here, and failing to do it because largely the environment in which we operate is now so skewed toward spending that it is nearly impossible for the best of us—and we are all the best; I say that in the fact that we were selected to serve and the people, in their judgment, thought we had the responsibility of serving—that the best of us can muster the fiscal responsibility to make the hard votes and to return to our constituencies, who have, in fact, learned that they have access to the largess of the public treasury through us. But it is very difficult for us to return to them and tell them that we have denied them what they believe, or what many are beginning to believe is their right.

De Tocqueville warned us of that after he had observed our Government over a century ago, concerned that in this noble experiment at some point in time, if and when the public recognized that, we might lose our democracy, and I believe we are on the threshold of, if not losing it, bankrupting it. And it is this effort that I think this Senate and this Congress must become dedicated to if we are going to resolve the issue.

My colleagues have outlined in part what is involved in S.J. Res. 41. It brings a bipartisan effort at hand. We continue to work, or I do, with Members of the House to assure that we build the necessary votes there. It is clearly important that we build the momentum. While that is going on, there remains and, in fact, there is a new and growing interest outside the Beltway by a variety of groups that this issue's day has come and we must deal with it.

Whether President Clinton succeeds or fails in his economic plan, it is obvious to all of us that it is almost impossible for him to deal with the kinds of issues that really begin to reduce the deficit in a meaningful way that bring us to a balanced budget.

Now, I will be very honest with you. I was frustrated when he did not speak of the balanced-budget amendment. He only spoke of the problems of postponing the decisionmaking as to a balanced budget and that any balanced-budget amendment required that. That is simply not true.

I think all of us, including our President, recognize that you can't get from where we are to a balanced budget in a short period of time, and he is attempting through his economic plan to develop a plan, a 4-year plan, that moves us toward reduced deficits.

The amendment that we have before us recognizes the need to phase in, but what it does establish is a time line at which we cannot pass go, and therefore it hopes to engender within us the discipline to meet the kinds of fiscal responsibilities that I think all of us are attempting to do and that our President is now attempt-

ing to do, and do it in a real way. Out there 5 or 6 years, we do have to be responsible in the fact that we have to bring the budget to a near balance, and there is no demand at this time that we accomplish that. There is only the growing pressure of a concerned citizenry that something is wrong in Washington, that we are mounting a debt and a deficit so large that it is truly beginning to stifle the resilience of the American economy and the producers within that economy itself.

So, I am pleased that you are holding these hearings and that this issue holds its bipartisan posture. It is very necessary that that be accomplished as we work this issue in the coming days.

Senator DeConcini has just come in the room. He has been a leader in this issue for a good long while. While I was over in the House, we formed an organization called Congressional Leaders United for a Balanced Budget. The now Governor, the Senator Pete Wilson, of California, and Senator DeConcini of Arizona helped organize it here on the Senate side, and that was all part of, as I mentioned in the opening comments, this growing coalition-building in a bipartisan way that is so necessary to produce a document like S.J. Res. 41 and, in fact, to send it forth to the American people for their consideration.

In closing, let me suggest that the clock that is ticking for our children's future is now so loud that we probably fail to hear it because we have become so adjusted to the sound that it is almost unrecognizable. I would hope we can fine-tune our hearing just a little better than it has been in the past, Mr. Chairman, because young people today across this country are beginning to awaken to the fact that their fathers and their fathers before them are indebting them in such a way that they will not be able to afford it.

Now, you and I and only our imagination can begin to conjure a future in which the debt of this country is so great that its citizens must dedicate a majority of that which they pay in to the servicing of that debt, and yet that day is just around the corner. I have suggested to young people in Idaho that if we fail to respond to this call, when I am an elder person they may look at me and suggest that they no longer can afford me; that although they have a responsibility, their responsibility is now so overpowering as to tax them in such a way that they cannot provide for their children or their children's children and their future that they may have to look backward and deny the responsibility to carry on for the debt that burdens them.

Now, that is an awesome thought, but I believe that if we fail, that thought could become a reality, and it is with that in mind and all the urgency that I can possibly express that this committee deal with this issue in a proper and speedy way, that we deal with the leadership of the Senate in a way that assures that we move this issue to the floor for the debate and for the consideration of the members as it must be dealt with. While that is going on, interest from across the country will watch us. We will work also in the House to assure that that kind of a vote is accomplished.

I would hope that in this first session of the 103d that we can send forth to the citizens of this country a balanced-budget amendment for their consideration, legislature by legislature, and do one

other thing, begin a national debate on the fiscal matters of this country that will be larger than any debate ever held, and it will occur in every State legislature across the land as they consider the amendment that we send forth. And the American people will grow to understand the budget and the budget process and this debt and this debt structure better than they have ever understood it before.

There are great things to be accomplished by sending forth this document, and hopefully in the end three-quarters of the States will ratify it and we will begin to control our appetites for spending and bring our fiscal house in order.

Thank you very much, Mr. Chairman.

Senator SIMON. We thank you, and we are pleased to be joined by Senator DeConcini, a member of the subcommittee who has been a leader in this area, and Senator Heflin who has been a strong supporter in this area.

Are there any questions of the colleagues here? Senator Brown?

Senator BROWN. Thank you, Mr. Chairman. Senator Craig, you have worked on this for quite a while. The National Taxpayers Union has suggested a different concept than what is included in this bill, I don't think antagonistic to the spirit of the bill, but it is a different concept than has been included in the proposals you have worked on as well, or at least as I am familiar with them.

The concept is to avoid the problem of dealing with the estimated revenue and estimated outlays that we are inevitably bound with by our current budget system. As you know, at times those estimates have had some integrity to them and at times they have been quite creative. Various parties have different views at times as to who has been the most creative, but suffice it to say, at least in my view, there has been some competition for creativity in revenue estimates.

Their concept is to simply say that if you fail to have a balanced budget the previous year that you will limit the increase in spending for the coming year. They are suggesting no more than a 5-percent increase in spending in the coming year, unless, of course, the declaration of war or unless, of course, the three-fifths, or 60-percent vote of the chamber is cast. Give us your reaction to that bent.

Senator CRAIG. My reaction is similar to the one expressed this morning about a concern for locking into any amendment a modernistic approach toward fiscal management that fits the time and the place, and I think Senator Graham expressed his concern about somewhat locking into place the idea of a unified budget.

I have, as many have, looked at a variety of approaches toward dealing with this issue over the last decade. I have really grown to believe in a very simple approach that I think is reflected in S.J. Res. 41 that does not put into the Constitution a mechanism, but merely requires certain approaches to be met and then provides, as the Constitution clearly speaks to in other areas, the responsibility for us to deal with it and to create the mechanisms necessary at the time, recognizing that times do change, but recognizing that balanced budgets don't. Either you do balance or you don't balance the budget. You can create all kinds of mechanisms, but the bottom line is you ultimately have to get there if that is the requirement.

Now, how we get there is part of our decisionmaking responsibility, but it is also in the judgment of the American people as observ-

ers of our actions as to whether we are doing it the right way or the wrong way. We ought not forget that we are only representatives of the people and that we have to stand for our actions on a regular basis.

But what is being suggested—and I do not argue that it is not an effort of good faith because the National Taxpayers Union has been involved in this issue with us; well, it has been here and involved longer than I have and they have been strong leaders across the country in it. This is a method of limiting revenue or limiting taxes, and that is our job. That is really our job and that is where we cannot shy from that responsibility.

I don't believe in auto pilots. You see, we have put entitlements on auto pilot and that is what is getting us in deep, deep trouble, and we have got to learn that we can't pass go. We have got to make the tough choices, and as it is true with spending it is also true with revenue. I don't think what Thomas Jefferson talked about was mechanisms on how you get there. He just simply said that the Federal Government ought to be disallowed the right to borrow, which means if you are going to spend the money, you are going to raise the money, and the mechanism then becomes the judgment of the American people whether you did the right thing or not.

So, I have erred on the side of keeping the approach, if you can, constitutionally correct by keeping it as simple as possible, recognizing that, as we have in the past, where the Constitution mandates we do certain things, we then create the mechanisms within the law and within rule and regulation to accomplish it.

Senator BROWN. Senator Graham, I was intrigued by your pointing attention to the trust funds, and I suppose if I were asked one of the legislative achievements I would be most proud of, it is starting Colorado's conservation trust fund, much like you have talked about for Florida. At the same time, we went through a trauma in Colorado. We got so many trust funds that the legislature lost real control over setting priorities.

How would you safeguard the financial integrity of the trust funds, one, and, two, how would you define them so they don't become a loophole that Congress might use to pull important areas of spending out of the budget priority system?

Senator GRAHAM. First, before responding to your two questions, I would indicate that the use of the unified budget has not served as a source of discipline, but rather as a license because it has been these large trust fund surpluses which have significantly masked the true extent of our deficit.

In 1989, the General Accounting Office in a report called "Managing the Cost of Government: Proposals for Reforming Federal Budgeting Practices," said:

As the unified budget is presently structured, surpluses in the trust funds are merged with the rest of the budget, effectively masking the magnitude of those surpluses and the size of the deficit in the rest of the Government.

The report went on to point out that in 1988, the year immediately before this report, the reported total deficit of \$155 billion actually consisted of a surplus of about \$100 billion in the trust funds partially offsetting a \$255 billion deficit in the rest of government.

So, I would start with the concept that by treating trust funds separately, you are not making government less disciplined, you are making it more disciplined by focusing on the general accounts.

Second, a definition of trust fund, one that has been recommended by the CBO, is that—and I am not proposing that this be written into the Constitution, but the trust fund is defined as a:

* * * fund designated by statute that is credited with income from earmarked collection and charged with certain outlays. Collections may come from the public—for example, taxes or user charges—or from inter-budgetary transfers. More than 150 Federal Government trust funds exist, of which the largest is Social Security.

So, I think my definition of a trust fund is a fund that has a specific source of revenue and a specific public purpose objective, and I would suggest to the committee some language in the area of the definition of what constitutes total receipts and total expenditures which would recognize that total receipts and expenditures could be categorized; that is, the general accounts would have to be in balance, total receipts, total expenditures, and individual trust funds would have to be in account, total receipts, total expenditures, but you would not have a unification of all of those as we have had since 1969 for purposes of this permanent constitutional amendment.

Senator BROWN. It strikes me that if you are talking about having a trust fund actuarially sound—admittedly, a term of art, but if you are talking about it being actuarially sound, you may well be able to avoid the temptation of Congress to use this as a loophole. I look forward to working with you on that language.

Senator GRAHAM. Thank you.

Senator BROWN. Thank you, Mr. Chairman.

Senator SIMON. Senator Danforth, just one question. First, I think it is unlikely that Congress would ignore the Constitution. On Gramm-Rudman or on the budget agreement, whether we agreed with it or not, no one got up and said let us just ignore the law. What we did was we changed the law because it was statutory.

But the time could come 50 years from now—I don't think it would, but it could, when Congress just said we are just going to ignore this, we are just going to go ahead and have a deficit. You are not suggesting that in that situation the courts would be impotent. What you are suggesting is that they could, through contempt citations, force Congress to do something. Is that correct?

Senator DANFORTH. That is right. Mr. Chairman, the origin of this proposed amendment—it did have a predecessor last Congress and the predecessor had to do with the court ordering taxation at the State and local level, and that grew out of the *Missouri v. Jenkins* case. The more I got into the balanced-budget amendment, the more concerned I became that the court could use it in the case of a stalemate in Congress.

I don't rule out the possibility, maybe even the likelihood, of stalemate. For example, State legislatures have been ever since the 1960's oftentimes stymied in deciding reapportionment matters at the legislative level. Why? Because if they do nothing in something that is very volatile politically, somebody else will bail them out; namely, the courts.

I don't rule out the fact that it is going to be no less difficult for Congress after a balanced-budget amendment to actually balance the budget than it is today. It is still going to call for very, very tough political decisions, so that if Congress believes that a court can order taxation or can order any other remedy, it is possible that Congress will punt.

So, what I am trying to address is exactly the issue that was created in *Missouri v. Jenkins* and I am trying to apply it to taxation at any level. The fundamental principle should be, in my opinion, courts can't tax. Now, that doesn't mean that courts are impotent. Courts have not taxed for most of the history of the United States. For 200 years, courts have not ordered taxes. It is a new phenomenon and it is just approved by the Supreme Court as recently as 1990. Before that, courts generally were assumed not to tax.

If that now has been changed by the Supreme Court, I believe that it should be written into the Constitution quite expressly what was obviously intended and what was manifested in the Federalist Papers. Make it explicit.

Senator SIMON. Any other questions of our colleagues?

Senator HEFLIN. How would you enforce by contempt? I mean, it seems to me that you would have a problem dealing with the issue there. Would you jail those that refused to vote on a certain measure? I don't believe you can—maybe I need to be enlightened on how you would do it by contempt.

Senator DANFORTH. Well, I don't think the courts have been powerless for 200 years to enforce court orders. Generally, they are enforceable voluntarily. If a court enters an order, whoever the order runs against is going to comply with it. Perhaps there are other things that a court could do, but what I am saying is that a court should not order the imposition of a tax, that that is fundamentally a legislative prerogative. It is something that is off limits for the court.

The old almost adage, no taxation without representation, the battle cry at the time of the Revolution, I think really meant something, and if it meant anything at all, it meant that people who are not elected and who serve for life simply cannot order the imposition of taxes, and that is the simple proposition that I offer.

I believe that a court can enforce orders. I believe that that has been the history of the Supreme Court that it has always been able to enforce orders, but I do not believe that it should be able to impose taxes.

Senator HEFLIN. Well, I see some problems on how you would enforce that upon Congress. At one time, I think Senator Hatch had an idea about the national debt and enforcement through that, but it sort of fell by the wayside—I don't really know the reason why. But the enforcement issue may be a defect in this whole situation.

Taxing power of the courts—I don't agree with that, but in the long run I think maybe some thought ought to be given to how you would enforce it. I believe in an earlier version, Senator Hatch's idea was that you would have to have a three-fifths vote to increase the national debt. I believe that was dropped.

Senator DANFORTH. Senator Heflin, I think a court cannot be impotent in the face of a constitutional provision, and that is exactly the reason for my concern. A court is going to do something if Con-

gress doesn't do anything. I mean, if Congress absolutely balks, it is politically impossible, nobody around here wants to lose an election, and therefore we are not going to do anything no matter what the Constitution says—I don't rule that out—the court cannot be impotent. The court has to do something.

What I am saying is that the range of remedies, in my opinion, cannot include the power to tax and be consistent with something that is just absolutely inherent in the Constitution and in the legislative power, article 1 power in the Constitution. What could courts do other than imposing taxes? A court could order that money not be spent for program A or B, or that a certain fraction be taken off of all spending programs.

I don't know, but I do believe that whatever else a court can do, as distasteful as whatever else it is, the power to tax is the very heart of legislative government. This is something that we have always understood in this country. The power to tax must be legislative and it resides in no other branch of government, and it can reside in no other branch of government or else the separation of powers really means nothing at all. That, to me, is the import of *Missouri v. Jenkins*. In that case, it simply had to do with State taxes and local taxes, but there is nothing in that case that would not be equally applicable to the court ordering Federal taxes.

Senator HEFLIN. I don't disagree with what you are saying, but I can see a lot of difficulties when you attempt to start dealing with contempt with individuals. I don't know. I believe you have got some problems regarding contempt, but I think it does need an enforcement mechanism.

Senator DANFORTH. If there are problems with contempt—I mean, if a court would perceive that there are problems with contempt, that, to me, would say that the court would be almost necessarily led to imposing taxes as a remedy.

Senator HEFLIN. Well, it is really doing that almost by indirection.

Senator THURMOND. Mr. Chairman, can I make a statement on this?

Senator SIMON. Senator Thurmond?

Senator THURMOND. I thoroughly agree with Senator Danforth. Under our Constitution the judiciary has no right to tax. That is left to the legislative body. The judiciary is to interpret the law, not to make the law. Taxing is to make the law. In my opinion, the *Jenkins* decision should be reversed. I introduced a bill to reverse that decision, but it has not been acted on yet. It should be passed. We have got to preserve, in my opinion, the right of the legislative body to impose taxes and should not allow the judiciary to do it under any circumstances.

Senator DECONCINI. Mr. Chairman?

Senator SIMON. Senator DeConcini?

OPENING STATEMENT OF HON. DENNIS DeCONCINI, A U.S. SENATOR FROM THE STATE OF ARIZONA

Senator DECONCINI. I wasn't going to do this, but I do want to pursue it. I won't take a lot of time, Senator Danforth. My original thought was to avoid that with my constitutional amendment years ago. Wherever the deficit was at the balance of the year, if the Con-

gress did not enact revenue sources to fill it, the income tax would go up proportionally across the board to avoid that. That got shot down by a number of authorities and is no longer a part of the amendment.

Now, my rationalization is if the Supreme Court did do what you said, could the Congress not legislatively overrule that? If the Congress said we are going to impose a 10-percent surcharge on all taxpayers to make up for this noncompliance of Congress, wouldn't the Congress, without a constitutional majority necessary, probably change that?

It seems to me there comes a time—and you may disagree because of the sensitivity and the importance of your argument on taxation—in our constitutional process that you have to rest with the goodwill of the court, the goodwill of Congress, and the goodwill of the executive branch, and that is my rationalization for not trying to do what you want to do because it is another approach that takes away from the coalition we have built here.

My concern is that the Supreme Court has done some things without enforcement going back to *Marbury v. Madison*, and made some decisions. What could the Supreme Court do to enforce that, call out the U.S. Marshals, and the executive call out the Guard or the Army or something? That isn't the way we work.

I may be naive in the feeling of what actually would happen, but I think we would handle it without contempt proceedings. I think we would pass laws, and even if we wanted to be irresponsible here, which we certainly have a propensity to do, we would pass a law. Would you care to comment?

Senator DANFORTH. Well, we are considering something momentous in this proposed constitutional amendment. We are proposing to amend the Constitution because of the same extraordinary circumstances that Senator Graham testified about and that is reflected in those charts. We are really saying that while Congress has the power, at least in theory, to deal with the huge deficits of the Federal budget, in fact, we haven't done it.

We try to impose various disciplines—Gramm-Rudman, the budget process—and all of it ends up failing. When it comes right down to it, you know, we don't really want to deal with the budget deficit. I wouldn't underestimate the ability of Congress not to act. I mean, I think that almost every political pressure is against serious action—oh, doing little things, but when it comes right down to actually balancing the budget and the huge decisions necessary to do that, I would not minimize the possibility of Congress, even under court order, saying, as Andrew Jackson said, well, the court has acted, now let it enforce it. So I think we could very well create a real crisis by inaction.

But my concern is that in order to resolve all of this, the crisis that would be created, to vest in the court the power to tax—whether Congress would end up acting because of that or not, I don't know, but to vest in the court the power to tax is a real change in the power balance.

Senator DECONCINI. But this amendment doesn't vest in the court the power to tax. It would be a great usurpation by the court if it decided to do that. Now, you have a case where it did it in your State and I understand that, and I have read the case, although

it was 2 years ago, whenever it was passed. But, you know, I am not convinced that they are going to follow that case.

Senator DANFORTH. Well, Professor Tribe and Professor Dellinger both testified before the committee last time this amendment was before it and both of them said that this would vest in the court the power to tax. I mean, if the court decides that it can get into a legislative function, and it has already decided that in *Missouri v. Jenkins*, there is nothing to stop it from using the same remedy at the Federal level.

Senator DECONCINI. Well, I agree, and tomorrow the court can make a decision on a case brought from HHS on entitlements. They can say, you have got to pay it and, Congress, do it. Isn't that a fear that we face every day with the court? When they do something that is so horrendous we repeal it by statute if we can, unless it is a constitutional matter.

Thank you, Mr. Chairman. Thank you, Senator Danforth.

Senator DANFORTH. Thank you.

Senator SIMON. And we thank all three of you and Senator Craig, who has had to leave earlier. We appreciate your thoughtfulness and your assistance here.

Our next panel is Prof. David Calleo of the Paul Nitze School of Advanced International Studies at Johns Hopkins University; James Davidson, the chairman of the National Taxpayers Union; Kenneth Ashby, the president of the Utah Farm Bureau Federation; and Kent Colton, executive vice president of the National Association of Home Builders.

Senator DECONCINI. Mr. Chairman?

Senator SIMON. Yes, Senator DeConcini?

Senator DECONCINI. May I have just 2 minutes? I want to personally thank you for these hearings and your strong leadership in pursuing this effort tirelessly as you have as chairman of the Subcommittee on the Constitution, and to welcome all the guests here.

I will submit my full statement which is very lengthy and puts out a history which has been repeated here time and time again, and nobody, even those who oppose a constitutional amendment to balance the budget, can dispute what has happened historically and where we are going. I make reference to the book "Bankruptcy 1995," by Mr. Harry Figgie, Jr., and Gerald Swanson, a professor of economics at the University of Arizona, on just where we are going by the year 2000 if, in fact, we have not done something. The annual payment on the deficit, if it continues just like it is, could be as much as \$700 billion a year.

With that, Mr. Chairman, I would ask that my full statement be printed in the record at the appropriate place.

Senator SIMON. We will enter that and we thank you for your leadership on this matter.

[The prepared statement of Senator DeConcini follows:]

PREPARED STATEMENT OF SENATOR DECONCINI

Mr. Chairman, I am pleased to be part of today's subcommittee hearing to discuss a constitutional amendment to require a balanced budget. I would also like to thank the witnesses in advance for taking the time to express their educated opinions.

Personally, I believe a balanced budget amendment is crucial to our country's economic success in the decades to come. I have sought support from my colleagues for a balanced budget amendment since I was first elected to the Senate in 1977. I firm-

ly believe this amendment is necessary to maintain the financial integrity and strength of our great nation.

As was made clear during last year's presidential election, the people of this country are worried. They are worried about our economy—about jobs and about the size of our Federal deficit. They are worried about the future which lies ahead for their children and grandchildren.

In my view, our country has reason to worry. The Congressional Budget Office says our deficit this year is expected to reach a record \$310 billion. The total national debt stands at \$4.5 trillion. To pay off the debt, each person in the United States—every man, woman, and child—would have to pay almost \$16,500. Annual interest on the debt alone amounts to almost \$300 billion. These figures are growing every single day.

We can ill afford to sit back and ignore the debt. Inaction is worse than stagnation in this case; it is fiscal suicide. The CBO says in just five short years, we can expect a debt of \$6.5 trillion. And interest payments of an astounding \$407 billion.

Clearly, as these figures show, the national debt is quickly and significantly reducing the wealth of our country. In fact, in just ten years, we have gone from being the largest creditor nation in the world to the largest debtor nation. In a timely book on the debt entitled *Bankruptcy 1995*, Harry E. Figgie, Jr., a cost reduction expert, and Dr. Gerald J. Swanson, an Associate Professor of Economics at the University of Arizona, address our budgetary situation and make some remarkably dire predictions. These authors contend that unless the United States undertakes massive corrections of our current fiscal habits, our country's accumulated debt will reach approximately \$13 trillion by the year 2000. Additionally, they assert the new millennium will bring our annual interest to more than \$1.5 trillion. Other consequences we can look forward to, the authors say, are higher taxes, rising interest rates, credit shortages, reduced economic growth, reduced standard of living, loss of control over domestic economic policy, and, ultimately, a loss of world power.

The book offers a decidedly bleak picture of our fiscal future. I concede we are not and have not to this point been on the right economic track. I honestly believe, however, and many renowned economists agree, that we can move to slow and even stop this runaway train we call a deficit. The key to our success is, inevitably, the passage of a constitutional amendment to slam the brakes on our ever-increasing budget deficit. A mandate requiring a balanced budget is a sure and necessary step on the road to economic recovery.

The process involved in the passage of a balanced budget amendment may seem insurmountable, but it's not. In the last ten years, this committee has approved such an amendment no less than five times. There has been floor consideration twice. The House came close to passing its own balanced budget amendment in 1990 and again last year. The problem has been that we need a two-thirds majority to pass a constitutional amendment. This should not be a problem. A recent poll indicates 80 percent of the American people want a balanced budget amendment. In response, this year we have formed a broad, non-partisan coalition of 24 Senators and 241 Representatives pledged to support passage of this amendment.

I believe reduction of the deficit is the single most important mechanism by which to promote long-term economic growth. I further believe a constitutional amendment to balance the budget is the only medicine strong enough to remedy the deadly disease we call fiscal debt.

Some critics think it is unwise and unwarranted to pursue the passage of such an amendment. They argue a constitutional amendment is, like the Gramm-Rudman Act, all bark with no bite. I disagree. Legislation we enact to restrain ourselves from spending may be changed, even annually, but the same is not true for a constitutional amendment which is of a much more durable nature. Furthermore, each and every Member of Congress is sworn to uphold the Constitution and, I believe, each feels an individual moral duty to carry out its provisions. As Americans, we appreciate the sanctity of this historical and significant document.

Some critics rely on the sanctity of the Constitution to provide the basis for another argument against a balanced budget amendment. These opponents argue the Constitution is sacred and should not be tampered with. I must admit I am sympathetic to this view. An amendment to our Constitution is not a trivial matter. Neither, however, is our budgetary fiasco a trivial matter.

Another common argument against a balanced budget amendment is that our government should be disciplined enough to make the cuts necessary to bring our unruly budget under control. With 100 Senators and 435 Representatives in Congress, however, each working to represent so many diverse segments of our populace and each harboring conflicting concerns, it's tough. The legislative branch, however, isn't solely at fault. Even as Presidents Reagan and Bush incessantly criticized Congress

for being responsible for the budget deficit, they failed to ever submit a budget which even came close to being balanced.

Regardless of how or why, this country is in economic trouble. Time has run out for excuses and delays. Something must be done. By spending ourselves into bankruptcy, we have inhibited our country's ability to provide for our citizens better education, housing, health care and other benefits vital to our quality of life.

While I have long been a proponent of a balanced budget amendment to the Constitution, other Members of Congress have not always been convinced. Some ardently agreed with the criticisms levied against the adoption of such an amendment. After spending time on Capitol Hill, however, many of these Members changed their minds. They eventually came to the realization, as have I, that a Constitutional amendment to balance the budget is not simply, as some have argued, just a reckless political quick fix. On the contrary a Constitutional amendment is the only effective measure we can take to force ourselves to make the hard choices necessary to bring our budget into line and to guarantee economic prosperity in the decades to come.

I agree with President Clinton who recently stated "[i]t is long past time we replace this legacy of debt with a new era of investment and fiscal responsibility." The 103rd Congress can and should heed the President's wise advice. This subcommittee should take action to set this nation on a direct course to economic recovery. We should recommend a balanced budget amendment to the full Committee and to the full Senate and we should pass such an amendment to the United States Constitution this year. Thank you, Mr. Chairman.

Senator SIMON. Professor Calleo, let me also commend you for your book, "The Bankrupting of America: The Federal Budget is Impoverishing the Nation," one of the best books I have read for many years. We are very pleased to have you here as a witness, Professor Calleo.

PANEL CONSISTING OF DAVID P. CALLEO, DEAN ACHESON PROFESSOR AND DIRECTOR OF EUROPEAN STUDIES, NITZE SCHOOL OF ADVANCED INTERNATIONAL STUDIES, JOHNS HOPKINS UNIVERSITY; JAMES D. DAVIDSON, CHAIRMAN, NATIONAL TAXPAYERS UNION; KENNETH ASHBY, PRESIDENT, UTAH FARM BUREAU FEDERATION, ON BEHALF OF THE AMERICAN FARM BUREAU FEDERATION; AND KENT COLTON, EXECUTIVE VICE PRESIDENT, NATIONAL ASSOCIATION OF HOME BUILDERS

STATEMENT OF DAVID P. CALLEO

Mr. CALLEO. Thank you very much, Mr. Chairman. I am very happy to be here to make whatever contribution I can to your deliberations. I think there is nobody here that needs to be told the whole subject of a budget deficit—how to define it, why do we have it, what does it do to us, why is it so hard to get rid of—is extremely complex both in its theory and in its history. I tried to address those questions, both in theory and in practice, in a comprehensive and balanced fashion in that book "The Bankrupting of America" which you were kind enough to refer to.

Now, I come at this issue from the perspective of someone who has written over the years on the relationship between America's world role and our domestic society and economy, and I have come to see the budget deficit as both a symptom and, in a sense, a mechanism for a kind of national decline.

Also, given the need for foreign financing of our debt, as well as our ability to manipulate the dollar, I see the budget deficit also as a symptom of a tendency to rely more and more on power abroad to compensate for our own shortcomings in discipline at home. This is a trend which is unworthy of us, I think, unsound,

and increasingly destructive for the liberal international economy which is, after all, one of our proudest creations in this postwar period.

In my written statement, I admit that there are powerful arguments against a constitutional amendment to limit spending. Those arguments, however, have to be weighed against the very high cost to us and the world of our fiscal deficits. Let me say a few things about that, although this is a subject which obviously has been amply explored.

Not only do big deficits crowd out useful government spending and worthwhile private investing, but financing our big deficits means oscillating between periods of easy money and heavy foreign borrowing, and that has resulted historically in stop-go monetary policies which discourage serious long-term investment, which encourages speculation and a very short-term view of economic return. I think that is a very heavy cost to our economy historically.

Our fiscal deficits are also very bad for the international economy. First of all, they frequently eat up a good deal of the world's free capital. With German reunification, with the effort of the old Soviet countries to transform themselves into free societies, the world obviously needs capital. Our American economy ought to be a great creator of wealth to help finance a better world rather than what we have now become, which is the world's largest consumer of other people's savings.

Our deficit is also very bad for trade. The oscillating monetary policy that goes with financing a large deficit also means an unstable dollar. It means there are frequent, very broad fluctuations in exchange rates. Those fluctuations make a mockery of the whole idea of free trade. They have the inevitable consequence of pushing the world into trading blocks.

Furthermore, a large fiscal deficit, representing, as it does, overconsumption on the part of our Government without any corresponding saving in other parts of our economy, guarantees that we will have a substantial trade deficit. You mentioned earlier, Senator Simon, the figure which I believe you got from the CRS that the trade deficit—35 percent, 50 percent of it can be attributed to the fiscal deficit.

Now, in this situation it is much easier to blame the protectionism or the cheating of our allies than it is to face up to the unpleasant truth that we are making our own trade deficits. Under these circumstances, nothing is more likely to damage the world economy than a profligate American fiscal policy combined with an aggressive trade policy, and unfortunately that seems to me to have been a trend which is not only typical of current policy but has been the general evolution of American trade policy over some time.

Now, given the escalating deficits of the past 20 years and the great damage they do to us at home and abroad, and given also the relative ease with which our Government can borrow, I think there is a case for some kind of structural restraint on deficits. I think the case needs to be developed and debated as part of a major effort to rejuvenate our constitutional arrangements and practices.

We, if I may say so, are at one of those periods in our history when we have to reconsider the fundamental practices of our Government. We have to refigure the balance between our great size

and diversity as a country, our love of liberty and free enterprise, and our need for an efficient, economical government. I say this, incidentally, as someone who believes not that our public sector has been doing too much, but rather than it has been doing too little, particularly domestically, but also as someone who believes that much of what we have done has been done badly. It is only by improving the efficiency of our Government, and in particular our capacity to conceive, to pass, to carry out coherent public policies, that we can find the means to meet the needs of our society at home and abroad to make our own sensible contribution to an orderly, prosperous, and peaceful world.

What is at issue in the budget question is the capacity of our political system to produce coherent and disciplined policies of any kind. That is the same basic issue, it seems to me, as in campaign reform. It is the same basic issue as in medical care, it is the same basic issue in trying to develop a coherent defense and foreign policy.

Now, this effort to rethink our fiscal arrangements ought to be seen as part of a more general process of reviewing and ultimately and overhauling our political system, one that ought to be going on throughout the Congress and the administration as well. There is a natural tendency, now that we have an unusually skillful and determined administration pledged to serious deficit reduction and able, many think, to end gridlock, to put off any effort at serious institutional reform.

I think that view is wrong. I don't see how this administration can succeed in all of its brave hopes unless institutional reform also goes forward. We need to impose discipline on our legislative process, and that is highly unlikely so long as there is no serious restraint on our ability to run large deficits.

As I say, what is really on trial in the budget issue is the capacity of our political system to produce coherent and disciplined policies of any kind; as I say, the same issue in budget reform, the same issue in medical care or in defense and foreign policy.

Several people have raised the moral issue involved and you cited that wonderful passage from Senator Douglas arguing that democracy requires self-discipline. That was a view based, it seems to me, as was Thomas Jefferson's, on a belief in a fundamental moral equilibrium that should be honored in our politics as in our lives.

There has always been another view that power is what really matters, that power is more important than balance. It seems to me behind the view that deficits don't matter lies implicitly the view that power is all that does matter, power to do good, of course; power to spend what we like and to manipulate our money in order to get rid of the debt; power to pass on to the rest of the world one way or another much of the burden of our own improvidence. In the long moral history of mankind, we ought to have learned that such faith in power is a very dangerous thing.

[The prepared statement of Mr. Calleo follows:]

PREPARED STATEMENT OF DAVID P. CALLEO

Last year, when the balanced budget amendment failed, a large part of the country's political establishment was greatly relieved. The reasons are familiar, and some are also persuasive—reluctance to change the Constitution to impose a par-

ticular substantive policy, cynicism about formal declarations of fiscal virtue, fear that technical problems of defining a deficit would throw the budget into the courts, fear that the amendment might empower a minority to block one kind of spending or hold it hostage to another. There are also serious disagreements about how a deficit should be defined. There is the whole issue of "off-budget" borrowing and federal guarantees, or how trust fund income should be counted. Distinguished economists like Robert Heilbroner argue that borrowing for capital spending ought to be treated differently from borrowing for consumption. There are, moreover, fundamental disagreements about the actual effect of deficits on the economy. Some of our most illustrious economists have for years preached that budget deficits are favorable for growth, indeed, that growth is unlikely without them. And even many who believe large persistent budget deficits are extremely harmful to the economy also believe, as I do, that there are worse things than fiscal deficits—losing a war, for example, or persistently neglecting the country's physical or human capital, or its environment.

I do, myself, see the force of all these arguments. I nevertheless believe the balanced-budget amendment has a critical role to play in that general overhaul of our governmental institutions and practices that many Americans of both parties, including many in Congress, believe is needed badly. We can hope that overhaul is now underway. The administration and Congress seem to be working particularly to stop the escalating growth of fiscal deficits. More fundamentally, Congress seems embarked on a serious examination of its own institutions and practices both to do something about the notorious inefficiency of our legislative process, and to free Congressional members from the compromising situation created by our methods of campaign financing.

The budget deficit is the most powerful illustration of what is wrong with our institutions. We should certainly not underestimate the very heavy price we are paying for our fiscal incontinence. Financially, the United States has been growing into a giant banana republic. Increasingly, we need fresh borrowing just to pay interest on old debt. Net interest charges are the fastest growing superfunction of our federal budget—having gone from 8.9 percent of federal outlays in 1980, to 13.7 percent in the current budget. Without the fancy accounting that goes into putting many items off budget, or the concept of net interest, the government's real borrowing costs are still higher. Naturally, the federal government has less and less money for other needs. Spiralling interest eats up any peace dividend and starves funding for infrastructure, education, and all the other civilian investments that affect our long-term competitiveness and social peace. Meanwhile, the national debt grows at an accelerating rate—now a trillion dollars in new debt every two to three years.

The reasons seem obvious. Even the most imaginative economists find it difficult to treat our current deficits lightly. Not only are the numbers frightening, but the consequences are more and more immediate. Recovery from the current recession has, until now, been agonizingly slow—despite the lowest short-term interest rates in decades. A very broad consensus blames the huge weight of debt in our economy—federal debt above all. The monetary medicine needed for recovery is so strong that it rekindles fears of inflation and a weak, volatile dollar, with the prospect of another round of severe monetary contraction to follow. Stop-Go, stagflation and an unstable currency are, of course, the normal conditions for a country with a large and chronic fiscal imbalance.

Unfortunately, this fatal trend is by now deeply rooted in our national habits and institutions. The American fiscal deficit has been out of control for over a decade. And successive Congresses have been unable to reverse the trend. Such a record suggests that the constitutional rules of the game may well need altering. For a variety of reasons, including the international role of the dollar, it is too easy for the U.S. government to borrow money and the external pressure to return to fiscal balance is much less felt here than in most other countries. Perhaps, too, there is less of a natural consensus on fiscal priorities possibly because our unusually heavy military spending has created more tension between military, domestic and private spending.

Certainly, the internal structural impediments to deficits are less in the U.S. than in most countries. In most parliamentary systems, a parliament can vote out the executive, but cannot alter a budget without the executive's consent. In France, which has a presidential system, but also a prime minister who depends on a parliamentary majority, the parliament is constitutionally forbidden either to raise expenditures or to cut taxes on its own initiative. Obviously, the practical workings of these arrangements do involve extensive bargaining. But there is a world of difference between a system where a government presents a comprehensive budget that cannot easily be altered and our own system, where the administration's budget is only the opening move in a prolonged campaign of interminable alterations.

In one respect, of course, the American process may be regarded as more democratic. It certainly opens the door to every interest group that can purchase Congressional support. But so anarchic a form of democracy does not, in fact, permit a genuinely accountable government. No one is in charge of the overall process, so no one can really be held responsible for the results. Congress becomes simply a collection of political entrepreneurs, bidding for a multitude of particular clients, whose support is needed to finance the voracious demands of reelection campaigns. Democracy in this chaotic form scarcely permits coherent national policies of any kind. It is not surprising that such arrangements regularly result in egregiously unbalanced budgets.

Within such a system, a specific constitutional impediment to fiscal deficits has a logical and obvious appeal. The real question is whether it goes far enough to provide a genuine remedy. Is our overall constitutional practice, in its present anarchy, really adequate to the needs of the world's most important nation, with huge and expensive responsibilities in the world, and increasingly urgent and dangerous difficulties at home? For those who look to the market to solve all problems, the answer is yes. From this perspective, the more Congress resembles a bazaar, the more effective it is likely to be. But after a decade when such ideas have been intellectually and politically ascendant, we seem to be rediscovering that a strong and competent state is needed if a market economy is to work properly for the national interest.

Backers of the balanced-budget amendment last year may have expected it would help restore party-discipline to Congress—and thereby to endow public policy-making with some great measure of coherence. They were widely criticized for going too far. Perhaps the real problem is that their reform did not go far enough. What is needed is not a specific constitutional limit placed on an anarchic governing process, but a general refashioning of institutions to make them capable of coherent and responsible policy-making. We need not so much to limit our budgets as to make them rational.

If a way is not found to make our government more efficient and responsive within our traditional constitutional framework, the country may well turn, in exasperation, to more authoritarian and irresponsible solutions. How to find the right formula returns us to the constitutional debates that have recurred since the beginning of our republic, when the authors of the *Federalist Papers* worried about the dangers of imbecility in a government they feared might be too finely balanced. Every generation needs to address that old problem for the conditions of its own time. We have been left a great tradition of successful constitutional adaptation. Our runaway budget is a strong indicator that our generation is failing to keep up its inheritance.

Senator SIMON. We thank you very much. I should have explained that we will follow the 5-minute rule for witnesses and enter your full statements in the record.

Mr. Davidson, we thank you and we thank the National Taxpayers Union for your consistent support of this amendment over the years.

STATEMENT OF JAMES D. DAVIDSON

Mr. DAVIDSON. Well, thank you, Mr. Chairman and the other Senators on the committee. All of you have been outstanding leaders on behalf of the balanced-budget amendment, and I would say again that I appreciate the opportunity to be here and I appreciate the leadership which all of you have shown over the years in support of the balanced-budget amendment.

The National Taxpayers Union has been working since 1975 on behalf of the passage of such an amendment, and through our efforts 32 of the required 34 State legislatures have made application to Congress to call a limited convention under article V for the purpose of drafting an amendment to require that the Federal budget be balanced. Three States have rescinded these resolutions, and last week the New Jersey Senate State Government Committee reported a balanced-budget convention resolution to the floor of the New Jersey Senate on a 4-to-2 vote. The assembly has already ap-

proved this resolution and we hope that New Jersey will soon add its name to the list of States demanding action.

Now, we have heard many times and many people have spoken about the grave damage and danger that is implied by a huge buildup of debt. The simplest explanation that I have ever heard of it is that, as far as I can tell, there has never been a country in the history of the world that became great or stayed great because of all the money it owed, and if we thought we were going to be the exception, we certainly, I think, are puffing something that should be a controlled substance.

In any event, history does show that debt and deficits lead to disaster. Our own history shows this. Many people say, well, if the Congress had the guts that it takes, if the Congress had the wisdom, if the Congress had more spinal substance, then the deficits would not exist. I think that our own record, our own constitutional history, shows that this is not the case.

The very Founding Fathers of this country, who everyone would admit were people of great courage, great wisdom, and great commitment to the principles of America, were unable to balance the budget under the articles of Confederation. They ran huge, chronic deficits. They ran down the value of the U.S. Treasury obligations to less than 15 cents on the dollar, and the reason we had a constitutional convention in 1787 was precisely because the Government was broke, the country was in collapse. We had no credit at home or abroad. Something had to be done to create constitutional incentives to make it possible to run a sound fiscal policy.

I would argue, and I think the record will show, that the reason that we had such prudent fiscal policy over a great many years, with a sudden and significant departure in the late 1960's and early 1970's, is that there was in the original constitutional mechanism an indirect balanced-budget requirement in the form of the gold standard or the gold reserve standard which had an unintended but completely comprehensive effect of requiring that the budget be balanced.

When, immediately, we went away from the last vestiges of the gold standard, we have not had a single deficit, and the deficits have been increasing at an increasing rate. This, to me, is not a surprise, but just what you would expect and in my testimony I detail more of the history of this development.

In any event, to get right to the specific form of the amendment, we feel that it is a crucial amendment to take the place of the missing constitutional restriction on deficits which the gold standard provided. To go to section 1 of the amendment, we had a little discussion of it before. I think that perhaps Senator Craig may have misunderstood what we intend by proposing the following change to section 1. I think it would be better to say:

Total outlays for any fiscal year shall not exceed total receipts for the previous fiscal year by more than 5 percent unless three-fifths of the whole number of each House of Congress shall provide by law for a specific excess of outlays.

What this essentially does is it doesn't take away the Congress' power to tax; it doesn't do anything that would not be inherent in the present form of the amendment. It simply eliminates the question of estimates because there you have an issue—for example, if the economy should fall into a deep hole and the receipts would not

grow by 5 percent, it would still be permissible to have the spending grow by 5 percent from the previous year's actual receipts. This would take Congress and the administration out of the guesswork game. It would provide an explicit historic record which could then be exceeded if the Congress wished to do so by a three-fifths vote or not. So, I believe that this would be an improvement.

Another provision that we suggest is that in section 6 we suggest that it be amended to read as follows, "The Congress shall enforce and implement this article by appropriate legislation," again a very simple change. We believe, contrary to the comments that were suggested, the very well-reasoned comments, by Senator Graham, that it would be a mistake to exempt Social Security or other trust funds from the comprehensive effect of this amendment because it would be opening really the same problem on another level. We would have proliferation of trust funds. There would be probably a tendency to abuse Social Security and the effect that is intended, which is to protect Social Security, might actually be counteracted, and we have a number of arguments that we spell out here.

I see that the red light is on, which means that my time is expired, but I thank the committee for the opportunity to present views of the National Taxpayers Union.

[The prepared statement of Mr. Davidson follows:]

PREPARED STATEMENT OF JAMES D. DAVIDSON ON BEHALF OF THE NATIONAL
TAXPAYERS UNION

Mr. Chairman and members of the Committee, thank you for the opportunity to appear today in support of S.J. Res. 41, the Balanced Budget Amendment. Since 1975, the 200,000-member National Taxpayers Union has been working on behalf of a Balanced Budget Constitutional Amendment.

Through our efforts, 32 of the required 34 state legislatures have made application to Congress to call a constitutional convention for the sole purpose of drafting an amendment requiring that the federal budget be balanced. Three states have rescinded their resolutions. Last week the New Jersey Senate State Government Committee reported the Balanced Budget Convention resolution to the floor on a 4-2 vote. The Assembly has already approved the measure, and we hope that New Jersey will soon add its name to the list of states demanding action.

Senator Simon, Senator Hatch, Senator DeConcini and Senator Brown, we sincerely thank you for your outstanding leadership on behalf of the Balanced Budget Amendment. We are very close to success, and it is due in large part to your tireless efforts for the amendment over many Congresses.

DEFICITS HAVE BECOME CHRONIC

There is now a widespread concern that the federal government spends too much and that the resulting deficits have become chronic. The budget has been in balance just once in the last 30 fiscal years. Budget deficits are now the norm during good years and bad. Further, as the record clearly indicates, the trend toward ever larger deficits is worsening.

Fiscal years	Dollars in billions
1961-1965 inclusive	\$ 23
1966-1970 inclusive	37
1971-1975 inclusive	121
1976-1980 inclusive ¹	315
1981-1985 inclusive	813
1986-1990 inclusive	900
1991-1995 inclusive	² 1,395

¹ 1976-1980 total includes a transitional quarter deficit of \$14.7 billion between 1976 and 1977. Includes off-budget items.

² Estimated.

Federal spending continues its rapid increase. The 1992 federal budget set new records for the budget deficit and federal spending claimed 24 percent of the Gross Domestic Product. In 1965, federal spending took 18 percent of GNP. Federal spending grew by 1,069 percent between 1965 and 1992, while the economy grew by only 775 percent.

Successive Congresses and presidents have not yet exhausted the good credit of the federal government and sunk the nation into bankruptcy. But that is the direction in which we are headed. With each day that passes, Washington spends roughly one billion dollars out of an empty pocket. Already, 58 cents of every dollar of personal income tax paid to Washington this year will go to pay interest on the national debt. In effect, previous Congresses and presidents have adopted the fiscal policy of Argentina under Juan Peron—looting the balance sheet of the country in order to buy votes.

Unfortunately, some people still believe the good credit of the government is not a resource that the Constitution should protect. Others assert that constitutional budget reform is merely a ploy to raise taxes. But taxes have been going up anyway as the deficits have skyrocketed. What is more important are the long-run consequences of a closer match between receipts and outlays. A balanced budget amendment would slow the growth of both spending and taxes.

We cannot be indifferent to the grave dangers posed by the over-reliance on deficits to finance the government. Even the most ardent supply sider should recognize that some level of debt must be worse than even taxes. Otherwise, we should dispense with taxation altogether and finance government through debt alone.

HISTORY SHOWS THAT DEBT CAN BRING DISASTER

History shows that over-reliance on debt to finance government leads to economic disaster. Our Constitution was adopted precisely because of fiscal collapse under the Articles of Confederation. As Sidney Homer wrote in *A History of Interest Rates*: "The finances of the nation were chaotic. Expenditures were authorized without the power to tax. Government credit sank so low that by 1787 certified interest-bearing claims against it were worth less than fifteen cents on the dollar."

As Sidney Homer and other historians have documented, the need to balance the budget and restore the good credit of the government led directly to the drafting of the Constitution in the first place. Mr. Homer says: "In spite of the great potential economic strength of the new country, its financial and political system broke down completely in 1786. Credit at home and abroad was no longer available. The impossibility of government without money, credit, or power led to the Constitutional Convention of 1787 and a new nation in 1789."

Too many people believe that the credit of the federal government can just be taken for granted. It is often said that politicians do not need constitutional help to maintain fiscal responsibility; all they are supposed to need is the "will" to do so. The evidence of our own history says otherwise. No one would argue that the great leaders who brought our country its independence lacked political will. Yet even they could not balance the budget and keep up payments on the national debt under the Articles of Confederation. It took a change in the Constitution to restore sound policy and sound credit.

What was true early in our history is true today. For better or worse, we have cast aside one of the principal features of the Constitution of 1787 that once limited deficits. There is no longer any requirement that the Treasury redeem its paper obligations in gold or silver. As long as there was such a requirement, deficits were effectively limited. Why? Because a deficit tended to lead to an automatic reduction in the money supply.

As gold standard critic Theodore Burton wrote in 1902, "an excess of expenditures is immediately felt in the decrease of the gold reserve." And that meant recession. So long as the money supply was tethered to gold, unruly deficits could lead to a drop in the amount of money in circulation, which depressed business conditions and therefore harmed the political standing of incumbents.

The last remnant of the original monetary constitution was the gold reserve standard, repudiated by Richard Nixon on August 15, 1971. A history of Mr. Nixon's decision to scrap gold reveals that he and his economic advisers were unwilling to run a surplus before an election year, as would have been required to maintain the gold peg. Even in its final, mongrelized form, the gold reserve standard stood in the way of deficits. It was scrapped for precisely that reason. It is no coincidence that the budget has never been balanced since.

Deficit spending has become a chronic structural defect over the past two decades, even as productivity growth and living standards have eroded. And the growth of the visible debt has been accompanied by a massive explosion of hidden liabilities.

By some calculations the U.S. government now has a negative net worth of trillions of dollars. If we continue to ignore this degraded balance sheet and let the deficit skyrocket, the day will come when the escalating cash demands of government will inevitably overwhelm credit markets, resulting in a downgrading of all government securities. A special committee of the Social and Economic Congress of Japan has warned Japanese investors that the U.S. Congress may default on the national debt.

WHAT'S WRONG WITH A DEFICIT?

Deficits as colossal as those that Congress keeps legislating can overwhelm even a strong modern economy. Incessant deficit spending batters our economy in three ways:

It forces up taxes, interest rates and inflation. To finance a deficit, the government must either increase taxes in the future, which picks money directly from citizens' pockets, borrow money on the open market, which drives up interest rates, or print more dollars, which results in inflation.

It "crowds out" free enterprise. When government spends and borrows, it soaks up resources that private industry might otherwise use to build factories, expand in markets abroad, and employ more Americans at better wages.

It runs down the national balance sheet. To satisfy its appetite for cash to sustain its spending binge, Congress must borrow at high real interest rates. To repay international creditors, we as a nation will be obliged to produce more than we consume and to export more than we import. Our standard of living, like that of other debtor nations, is therefore likely to fall.

As the debt grows, so does the temptation to inflate our currency. But we can dilute the dollar's buying power only so long before investors panic and switch their assets to yen or deutsche marks, thereby devaluing the savings and investments of anyone holding dollar-denominated assets.

HOW BUDGETARY POLITICS CAUSES EXCESSIVE SPENDING AND DEFICIT FINANCING

Some people believe that, as long as there are free and open elections, fiscal excess can be controlled. The fiscal record proves that electoral constraints are not enough.

The tendency for government spending to take an ever-greater share of national income is common to all countries with representative government. In spite of many promises to the contrary, no leader has succeeded in permanently reducing government spending. There is a reason for this uniform failure. It is not a coincidence. A distinct political bias, an institutional defect, in favor of deficit finance and excessive spending is a common failure of representative institutions. This bias is caused by several factors which I shall briefly outline.

1) *Pressure Group Politics.* Well-organized special interest groups make strong demands for programs that benefit them greatly. On the other hand, these demands are weakly opposed because costs are spread over all taxpayers, each of whom stand to lose comparatively little. Add to this the well documented phenomenon of legislative log rolling for reciprocal political benefit, and it's easy to see why pressures for increasing spending usually exceed the opposition that can be brought to bear.

The result is that the total of government spending is higher, even though the majority of voters would oppose the higher total if given a chance.

2) *Deficit financing* helps magnify this defect. It enables Congress to make the benefits of increased spending immediately evident to special constituencies while disguising the costs in the form of borrowing, reduced economic growth, higher interest rates and inflation that are diffused over large numbers of the rest of society.

Voters are pleased by tax rate reductions; they are displeased by tax rate increases. The simple political arithmetic of the process can produce permanent and continuing deficits.

3) *Each individual congressman faces a "prisoner's dilemma."* The prisoner's dilemma describes a situation where pursuit of each person's self-interest can produce an outcome undesirable to all. Individual congressmen bear a far higher political cost for attempting to restrain spending than they do from contributing to spending in excess of revenues. Even if an individual congressman voted against every single appropriation in its entirety, his or her impact on spending would be negligible. But that same congressman would incur the wrath of special constituencies whose pet projects he or she opposed.

4) *Individual taxpayers face a similar dilemma.* Ideally, all taxpayers should ask not what their country can do for them. But human nature pulls people in the other direction. Once the seemingly inevitable taxes are paid, it is in each citizen's self-interest to consume and lobby for as many "free" government benefits as possible.

Self-denial is impossible for over 250 million citizens who have no effective means of communication and have even less reason to expect complete cooperation.

That is why successive presidents and many well-intended members of Congress have failed to achieve spending reductions through the ordinary political process. If we are to preserve our nation's good credit, we must find a substitute for the parts of the Constitution that previously limited deficits. This is why an explicit balanced budget amendment must be adopted. That is why we strongly support S.J. Res. 41, proposed by Senators Paul Simon, Strom Thurmond, Orrin Hatch and others. This proposal would restrict deficit spending, while making it more difficult for Congress to increase taxes. For 18 years, advocates of constitutional reform have warned that politics as usual, budget compromises and mere laws such as Gramm-Rudman would achieve little. These warnings have been ignored, while the national debt has multiplied 10 times over. Every statute and promise short of constitutional reform has failed.

WHAT WOULD THE BALANCED BUDGET AMENDMENT DO?

The proposed Balanced Budget Amendment would restore, as a Constitutional principle, the presumption that Congress must adopt and enforce a balanced federal budget, except in special situations. It would re-establish a direct link between spending and taxing decisions.

Under S.J. Res. 41, total federal spending must not exceed total federal revenue for each year unless a 60 percent plurality of those elected in both chambers votes to allow the Congress to authorize a specific amount of deficit spending. A budget, once adopted, would be binding on all expenditures, including those now characterized as "off-budget."

The amendment also proposes that any increases in taxes must be approved by a constitutional majority of each house of Congress—a "yes" vote by a majority of all members, in a rollcall vote. Currently a tax increase can be passed by a majority of a quorum, or those present, without a recorded vote.

Therefore, if an amendment is ratified, Congress can address unforeseen demands on the budget in three ways: by reallocating resources within the budget; by specifically authorizing deficit spending (with a 60 percent vote required); or, by specifically voting to raise taxes (with a constitutional majority vote required). All provisions would be suspended in the event of a declared war.

Because of these "escape" provisions, an amendment would not guarantee that the federal budget would be balanced. What it *would* guarantee is direct accountability of Senators and Representatives if deficits are incurred or taxes increased. The voters then can decide if they want individuals who allow this to represent them in Washington.

At present, measures which have the effect of aggravating deficits or raising taxes almost always are combined with other issues in a single vote. Members never vote on a bill which directly authorizes deficits and seldom on one which exclusively raises taxes. This dilutes the influence of those Members (and constituents) who favor fiscal responsibility, and strengthens the influence of those who favor heavy spending. Worst of all, it enables fiscally irresponsible Members to mask their voting records and avoid accountability to the people they represent. A Balanced Budget Amendment is designed to correct this problem.

As a constitutional restraint, S.J. Res. 41 addresses both the "pressure group politics" and the "prisoner's dilemma" factors by governing all the rules for federal spending. It will force the federal government to control spending by setting rules for controlling the amount that can be spent in any fiscal year.

Richard E. Wagner, a leading theorist on the subject, has written that "one valuable service of constitutional constraints is to prevent undesirable outcomes that would emerge from ordinary legislation. Most of the Bill of Rights comes quickly to mind—protecting unpopular lines of thought and advocacy, which would often be banned by legislative majorities. Yet over time, such legislation would destroy liberty. Constitutional rules are valuable means of escaping prisoner's dilemma inherent in ordinary legislative processes."

James Buchanan, author of *Democracy in Deficit*, the seminal work on constitutional budget restraint, has written, "the argument for an explicit amendment to the written United States Constitution is based on the conviction that * * * the fiscal constraint must be made explicit and that it must be enforceable. The effects of a balanced budget constraint would be both real and symbolic. Elected politicians would be required to make fiscal choices within meaningfully constructed boundaries * * * They would be forced to behave 'responsibly,' as this word is understood by the citizenry, and knowledge of this fact would do much, in its turn, to restore the confidence of citizens in governmental processes."

HOW TO IMPROVE SENATE JOINT RESOLUTION 41

While we strongly support adoption of S.J. Res. 41 in its present form, we believe it can be significantly improved, without changing the fundamental concepts behind the proposal.

I propose a simple change to section 1 of the amendment, which would provide new counter-cyclical and anti-inflationary features while avoiding projections and year end surprises. Section 1 could read as follows:

Total outlays for any fiscal year shall not exceed total receipts for the previous fiscal year by more than five percent, unless three-fifths of the whole number of each House of Congress shall provide by law for a specific excess of outlays.

This key provision says that the federal government can't spent more than the revenues collected in the previous year plus five percent. Revenue estimates are still permitted in planning a budget, but there is a five percent limit on the revenue growth that can be assumed and spent. Spending more than the previous year's revenues plus five percent is permitted, but only if a specific excess of outlays is approved by a three-fifths vote. If revenues increase by more than the estimate or more than five percent, then there would be a surplus or a smaller deficit for that fiscal year.

My proposed amendment also avoids year-end surprises that could be caused by tying actual outlays to actual receipts. If receipts fall below estimates, that approach may force Congress to cut spending, raise taxes or authorize a budget deficit near the end of the fiscal year. Tying actual outlays only to estimated receipts is risky because it gives Congress an incentive to overestimate receipts.

These problems would not occur under my proposal. Revenue estimates that assume more than five percent growth would be avoided (unless authorized by a three-fifths vote) and year-end surprises would be eliminated. Outlays would be relatively easy to control because the target is known in advance.

Finally, the proposal is anti-inflationary because high inflation would cause receipts to grow faster than five percent, creating a budget surplus. During a recession, this proposal would allow outlays to equal the previous year's receipts plus five percent, even if revenues were expected to decline. Additionally, no three-fifths vote would be required to authorize a deficit as long as outlays did not exceed the previous year's revenues plus five percent.

I hope you will give this alternative serious consideration.

We also strongly recommend that the second sentence of section 5 be deleted. It concerns a "military conflict which causes an imminent and serious threat to national security." We worry that this language could be abused by future Congresses or presidents seeking to loosen the balanced budget rule.

This language is superfluous since it is designed to solve a non-problem. Other provisions in the amendment *already* provide for situations that may threaten our nation's security, short of war. First, there should be a contingency fund in the budget. Part of the contingency fund could be used for an unforeseen threat.

Second, other programs could be cut, and the funds could be redirected to meet the threat.

Third, the amendment allows for more spending when new taxes are authorized or when a specific deficit is approved.

Finally, history shows such a provision is wholly unnecessary. A study by the National Taxpayers Union of votes since before World War II shows that Congress has always passed urgent military spending bills during times of national emergencies by margins that would easily meet the requirement of a three-fifths vote that is already in place in S.J. Res. 41.

We would also suggest that Section 6 be amended to read as follows:

Section 6. The Congress shall enforce and implement this article by appropriate legislation.

We are wary of introducing additional language that would encourage Congress and the President to use estimates in complying with the terms of the amendment. The other provisions in the proposal clearly discourage the use of such estimates, and we think that this vague language adds little to the proposal and can be safely deleted.

CONGRESS SHOULD NOT EXEMPT SOCIAL SECURITY FROM THE BALANCED BUDGET AMENDMENT

A balanced budget amendment proposed by Congressman Richard Gephardt (D-MO) last year would have excluded both expenditures and receipts of the Social Se-

curity trust funds (OASDI). Such a provision would render the balanced budget amendment meaningless and endanger Social Security.

It would create a huge loophole in the amendment and encourage Congress to raid trust fund revenues. A future Congress that wished to circumvent the amendment could, by a simple majority vote, authorize deficits equal to Social Security spending by reducing trust fund taxes and revenues and increasing general fund taxes and revenues by an equal amount. Congress could also create deficits by channeling other programs aimed at aiding the elderly (or other beneficiary group) through the trust funds. Even if the amendment were faithfully observed, this provision would still allow huge deficits in the Social Security trust funds in the next century which will occur under current policies as today's younger workers retire.

It would unnecessarily muddy the Constitution. Constitutions do not carve out programs, they enunciate broad principles. Nothing in S.J. Res. 41 would limit Social Security spending. For example, Social Security spending will continue to grow as planned so long as its enabling legislation, which provides for COLA's and benefit increase formulas tied to the lifetime contributions of retirees, are not changed.

It would precipitate an interest group free-for-all. It would prompt other powerful client groups—from veterans to highway contractors—to seek their own exemptions.

It would harden anti-Washington sentiment. The modification would probably scuttle the balanced budget amendment, and in the process would reinforce the widely held view that Congress cannot rise above interest groups politics to pursue the national interest. A failure to pass the BBA could feed the very doubts that have spawned distrust not only of congressional incumbents, but the parties themselves.

It would endanger Social Security. Net interest on the debt has grown from a mere 8 percent of federal spending in 1980 to more than 16 percent in 1993. At this rate of growth, interest on the debt will consume more than 10 percent of gross national products (or about 40 percent of anticipated federal spending) by the year 2015. Not only will interest begin to crowd out Social Security, but the continued buildup of debt will impair the ability of future taxpayers to refund monies borrowed from the trust fund. Only an all-inclusive balanced budget amendment will force Congress to balance the budget and create a sound environment for the future of Social Security.

CONCLUSION

It has taken 17 long years of struggle to bring the proposed amendment to the brink of passage. The Congress finally appears ready to act decisively on the one reform of federal finances that could really work—a constitutional amendment to restrict deficits. Thinking people should applaud this overdue reform. The history or written constitutions is the history of increasing fiscal control on the government. Most of the provisions of the Magna Carta were limits on taxing and spending authority. Our own Constitution of 1787 was adopted in response to a fiscal crisis. The opponents of fiscal responsibility who say that "deficits don't matter" and "economic theories should not be written into the Constitution," are missing the historic fact that constitutions which fail to protect the good credit of the government don't last long. Our own Articles of Confederation failed for that reason. And so have innumerable democratic governments in this century.

One of the most constructive steps Congress could take now to avoid hardship later would be to propose a constitutional amendment prohibiting deficits and send it to the states for ratification. Such an amendment would not solve every fiscal problem facing the country. But it would be a binding promise of fiscal responsibility in the future. Without such a promise, we face the possibility of a credit crisis, sharply higher interest rates, and even economic "chaos" of the kind that did in the Articles of Confederation.

Senator SIMON. We thank you.

Mr. Ashby, I should call on my colleague, Senator Hatch, to introduce you.

Senator HATCH. Well, I already have. Ken Ashby is one of our great leaders in the Farm Bureau in this country and he has served both there and in our State leadership in very exemplary ways. We are happy to have you here today and we know you will bring your usual practical and wise approach to resolving some of our conflicts, of course, in support of this balanced-budget amendment. So, we are happy to have you here and we welcome you.

STATEMENT OF KENNETH ASHBY

Mr. ASHBY. Thank you, Senator Hatch. Mr. Chairman, it is a pleasure to be here with you. I am Ken Ashby from Delta, UT, a farmer. I am president of the Utah Farm Bureau and am pleased to make this statement on behalf of the American Farm Bureau Federation.

Just as a little background, I raise alfalfa, hay, and grain on an 850-acre farm in Delta, UT. I am chairman of the Utah Agricultural Advisory Board, appointed by the Governor, and on the Millard County Water Conservancy District. My main responsibilities are in the farming business. My college degree is from Brigham Young University in agricultural economics.

The Farm Bureau supports a balanced-budget amendment to the U.S. Constitution and we are pleased to endorse S.J. Res. 41. Farmers and ranchers believe that this amendment can help provide much needed budget discipline that unfortunately seems to be lacking in our Government today. Farm Bureau members are concerned that unless discipline is restored to Federal spending and taxation, an insurmountable burden will be placed upon future generations. I, for one, don't want to see my five children inherit an ever-expanding Federal Government and a debt burden that will substantially reduce their living standards. This is why Farm Bureau has worked for the past 15 years to enact a constitutional amendment to balance the budget.

Aside from the heavy burden facing future generations of taxpayers, agriculture today feels its share of the load of the \$4 trillion national debt and annual deficits that rank in the \$300 billion-plus range. As farmers all too well know, high debt loads mean high interest payments. Today, it is estimated that the annual interest payment on the national debt is \$200 billion. This is money that could be spent on productive enterprises, but cannot because of the heavy debt load that taxpayers must carry.

Now, agriculture, in particular, has carried a disproportionately large share in deficit reduction for the last several years and it will continue to do so until a permanent provision that encourages fiscal restraint is put in place. Until the large crops of 1992, spending in agriculture has been on a significant downward trend. Until all entitlement spending laws are changed, Federal spending will remain out of control.

Senate Joint Resolution 41 will provide the parameters for Congress to rein in all Federal spending. This resolution can make a difference in the economic health of our country. Its provisions are sound. I would like to comment briefly on the general provisions. However, before I do so, I want to say that as a farmer I have to balance my budget and pay back whatever money I borrow. I believe the Federal Government should do no less.

Now, first, under the proposed amendment Congress could not spend more than it takes in unless three-fifths of the whole number of each House votes to do so on a roll call vote. This provision is the heart of the amendment because it requires a super majority to increase Federal spending, and uncontrolled spending is our Government's biggest problem today. This provision will elevate the scrutiny of proposed new spending and force legislators to go on record when they decide to increase spending.

Second, the debt limit cannot be increased without the approval of three-fifths of the whole number of each House on a roll call vote. Like the first provision, this super majority makes it much tougher for Congress to finance the Government on borrowed money.

The third section of the proposed amendment places responsibility upon the President to submit a balanced budget. This is an important provision because it acknowledges that the executive branch, as well as the legislative branch, bears responsibility for a balanced budget even though it is Congress' responsibility to raise taxes and appropriations. It certainly puts the executive branch in a position that they need to bear the responsibility.

Fourth, tax increases could not occur unless approved by a majority of the whole number of each House on a roll call vote. While Farm Bureau believes that stronger tax limitation language is needed, we believe this provision is a vast improvement over the status quo. Under current law, a majority of each House present and voting could increase taxes on a voice vote. The constitutional majority and roll call vote requirements of S.J. Res. 41 should make tax increases more difficult.

The section dealing with declaration of war and engagement in military conflicts, we believe, is adequately covered.

Mr. Chairman, Farm Bureau is engaged in an active campaign to gain cosponsors for S.J. Res. 41 and its House companion, H.J. Res. 103, introduced by Representatives Charlie Stenholm and Bob Smith. I am particularly pleased that our Senators, Senator Hatch and Senator Bennett, are cosponsors of this measure. We are committed to achieving the passage of this amendment in the 103d Congress and will be active in State ratification efforts.

It has been a privilege to testify before this subcommittee. We appreciate your introduction of the amendment, Mr. Chairman, and the efforts of Senator Hatch and other cosponsors who will continue to persevere toward the adoption of this amendment. We are pleased to work with you in this effort.

Thank you.

Senator SIMON. We thank you and we thank the Farm Bureau, also, for their consistent support here.

Mr. Colton?

STATEMENT OF KENT COLTON

Mr. COLTON. Mr. Chairman, it is a pleasure for me to be here. My name is Kent Colton. I am the executive vice president of the National Association of Home Builders. NAHB has over 160,000 member firms who are involved in building and remodeling for both the single- and multi-family sectors of the housing world for all incomes within that housing world.

NAHB has a strong policy advocating the adoption of a balanced-budget amendment and we have had that policy consistently over the past decade. In the early 1980's, we created a campaign which referred to the deficit as the ticking time bomb and we have consistently since that time supported the efforts of you and others to try to achieve this as an amendment to the Constitution.

Our current policy advocates the adoption of an amendment to the Constitution which would require the same vote in Congress to

either increase tax receipts or spending outlays. However, we realize that in the process compromise is necessary and therefore for this reason we offer our strong support to Senate Joint Resolution 41 which is proposed and introduced by you, Mr. Chairman, Senator Hatch, and with the strong cosponsorship, including Senator Brown, of 25 Members of the Senate, and we hope that number will increasingly grow and we will certainly help in that process.

Many of the members of NAHB have spent a great deal of their professional lives trying to bring about something that we refer to euphemistically as affordable housing, and there are a number of factors that are involved in doing that. As an aside, regulations at the State, local, and national level will oftentimes add more than 25 percent to the cost of a house, but it is very clear in everybody's mind that one of the most important dimensions in being able to afford a house is the cost of the mortgage interest that the borrower has to pay, and it is very clear that the cost of the mortgage interest is strongly impacted and affected by the size and the concern in the capital markets over the Federal deficit.

We saw this in spades in the early 1980's, when we are all aware of the fact that mortgage rates rose to the double-digit level of 15 to 20 percent. That was clearly intolerable and it brought affordable housing to a screeching halt. It is our great concern that if we don't do something about the deficit that those kinds scenarios which happened in the early 1980's could indeed happen again and will happen again. The time to act with respect to the balanced-budget amendment is now.

Interest, whether it is mortgage interest or interest on the debt, should not be minimized. The interest on the debt alone in fiscal 1994, as all of you are aware, is in excess of \$200 billion. These dollars, if not needed for interest, could go a long way toward improving our Nation's infrastructure, advancing our education needs, preventing and controlling crime in the streets and in the home, providing health care to many who currently don't have that health care, providing affordable housing, or feeding, clothing and sheltering those families who are either homeless or who pay in excess of 50 percent of their incomes for rent.

In short, Mr. Chairman, this over \$200 billion which is used to service the interest on the debt in 1994 alone is a lot of real money that could be used to better serve the needs of the American public. Such an option is obviously not available today, but advancing S.J. Res. 41 to the State legislatures for their approval will provide some hope for tomorrow.

It will also provide us and the financial markets as well with more than simple rhetoric, something that we have heard for a number of years, and more than just hope. It will provide us with the beginnings of the means for ensuring long-term financial accountability necessary to provide the long-term financial stability and responsibility which this Nation needs.

This concludes my oral statement, Mr. Chairman. Once again, I congratulate all of you for your leadership in this effort. I also congratulate your professional staff in helping to put together this hearing, and would certainly be glad to answer any questions that you might have.

[The prepared statement of Mr. Colton follows:]

PREPARED STATEMENT OF KENT COLTON ON BEHALF OF THE NATIONAL ASSOCIATION
OF HOME BUILDERS

I am Kent Colton, Executive Vice-President of the National Association of Home Builders, a trade association representing over 160,000 member firms involved in the building and remodeling of single- and multi-family housing for people of all incomes.

Mr. Chairman, it gives me great pleasure to offer our support for an amendment to the Constitution to require the federal government to, plain and simply, balance its budget. NAHB policy on this issue has been steadfast for over a decade. Our current policy advocates the adoption of an amendment to the Constitution to require procedural parity as to the majority needed to either increase tax receipts or budget outlays, such as a super majority, or three-fifths vote, to increase either taxes or spending. Failing this approach, however, we stand ready to support the adoption of an amendment that requires a balanced budget even though, on the surface, it would appear easier to raise taxes than it would to increase the public debt or to run a deficit.

For this reason, we offer our support for Senate Joint Resolution 41, proposed legislation introduced by you and Senator Hatch, with the broad bipartisan support of over two dozen Members of the Senate, along with the companion legislation in the House of Representatives, where Congressman Stenholm and roughly 240 of his colleagues are sponsoring House Joint Resolution 103.

The time for Congress to act favorably on this issue is now. The federal government has failed to produce either a balanced budget, or one in surplus, since fiscal 1969, when Lyndon Johnson was President. Mr. Chairman and Members of the Subcommittee, that has been 25 years since we last had a federal financial statement that was in balance.

Recent Congressional studies have shown that, if nothing is done to reverse current trends, federal spending could increase from its current level of roughly 23 percent of Gross Domestic Product (GDP) to a level of over 42 percent by the year 2020. The accompanying deficit would amount to nearly 21 percent of GDP. While these numbers do not reflect the current proposal submitted by President Clinton, we take little comfort in the efforts by this, or any other President, on a year-to-year basis, to take us to the point of a balanced budget by fiscal 1999 without S.J. Res. 41.

Were this spending phenomenon I have just outlined to become a reality, it would result, inevitably we believe, in higher interest rates, higher health care costs, higher costs for a quality education, higher costs to address the retirement needs of us all, and a national public debt totalling an incredible \$45 trillion—over eleven times the current total debt.

Many members of NAHB have spent a great deal of their professional lives dedicated to an issue that all of us strongly believe in, that of affordable housing for all Americans, whether, they rent or own their own home. While there are many factors to the equation, and clearly unnecessary regulations by government at all levels often force the cost to increase by a staggering 25 percent or more, the cost of money—*interest rates*—contribute greatly as well.

As we learned so painfully a decade ago, increasing federal debt does have an effect on interest rates—interest rates that are applied to the financing of housing, both for the acquisition of land, its development and construction, and the long-term financing. Fortunately for Americans, other developed countries invested heavily in the financing of our debt and interest rates returned to tolerable levels. I am less than convinced that such a scenario could, or would, be duplicated today if rates were to return to the double digit levels of 15 to 20 percent on mortgages, and even higher interest rates on the actual construction. The resulting cost was passed on to renters as well as buyers, leading to an inflationary trend in the economy.

Yes, Mr. Chairman, the time for action is now. For over a decade, many of us in this room have realized that there truly is "no free lunch," and that this definitely includes the financing of the federal government. If, as others have often stated, and as I too believe, our children are our greatest natural resource, then we are guilty of wanton "gross neglect" at best when it comes to our burdening them with our nation's debt. We have successfully saddled them with almost \$4 trillion in debt, the interest of which must be paid, if not the principal as well.

That interest alone, as listed in the budget resolution that will be before the full Senate later this month, is in excess of \$200 billion. Admittedly we have not performed any scientific analysis of how far two hundred and eight billion dollars that Congress will likely vote to service our current debt would go toward financing our nation's other priorities. However, we believe that it is safe to conclude that it would go a long way toward improving our nation's crumbling infrastructure, advancing our educational needs, preventing and controlling crime in the streets and in the

home, providing health care to many who are currently without adequate insurance coverage, and feeding, clothing, and sheltering those families who are either homeless, or who pay in excess of 50 percent of their incomes for rent. In short, Mr. Chairman, \$208 billion to service the interest on the debt for 1994 alone is a lot of *real* money that could be better spent elsewhere if that option were only available.

Such an option is not available today, and advancing S.J. Res. 41 to the state legislatures for their approval, will not provide it tomorrow. However, it would provide us, and the financial markets as well, with more than simple rhetoric, and more than just hope. It would provide us with the beginnings of, at long last, the means for ensuring long-term financial accountability necessary to providing long-term financial responsibility.

CONCLUSION

This concludes my statement, Mr. Chairman. I thank you for the opportunity to provide our views, and for your long enduring support for legislation to require our government's budget to be in balance. I also wish to acknowledge the cooperation and professionalism of your staff in preparing for this timely and important hearing. I welcome any questions that you or others on the Subcommittee may have and again I offer you our support for Senate passage of S.J. Res. 41.

Senator SIMON. We thank you. Professor Calleo, you mentioned the international ramifications. I had the experience of visiting with the Director of the International Monetary Fund, thinking he wanted to visit with me about their guarantee from Congress. Instead, he talked to me about the burden on the poorer nations that our debt creates for them.

Are we, in fact, through consuming so much credit around the world, making a very difficult time for Third World countries, many of whom now are democracies, who are trying to struggle forward and find themselves imposed with great debt service costs?

Mr. CALLEO. Well, certainly, as I tried to suggest, our heavy use in many years of the capital that is available in the world in order to finance our deficit does obviously have an effect on whether that capital is available to others. That was perhaps not so serious in the 1980's because that was a period when Europe, for example, was actually accumulating capital and when Japan, as you know, for one reason or another, was in great surplus. Some of the reasons we know very well because the surplus came from our trade.

Of course, even then it was very difficult for poorer countries who are on the margin in any event, but it has become much more serious now, I think, because of some of the reasons I mentioned. We have the reunification of Germany, which is not a poor country, obviously, but which used to be a greater saver in the world and it now has this tremendous task of rebuilding the eastern part of its country, which is using up a great deal of its own savings and drawing on savings from elsewhere.

At the same time, there are tremendous needs in Eastern Europe. We talk all the time about how important it is that that transformation in Eastern Europe should succeed, that Russia and other countries there be able to transform themselves into democracies and market economies. That will take capital and if the United States is, at the same time, absorbing a large amount of that capital, obviously it does weigh heavily upon their ability to succeed. So, in that sense, I mean the answer, of course, is as you suggest, yes.

What I also tried to point out were the effects on trade where, as you point out, the estimate of the CRS is maybe 50 percent of

the trade deficit can be attributed to the effects of this large fiscal deficit. In a situation where most advanced countries are under increasing pressure from competition from what used to be Third World countries who are industrializing with great success, but also have very cheap labor—in a situation where all rich countries are under this pressure and where all rich countries are trying a common strategy, which is to try to dominate high-technology, high-value-added industries and services, obviously trade relations among advanced countries are in a very delicate state because, in a sense, all our backs are up against the wall.

In a situation like that, for the United States to be carrying this heavy fiscal deficit with the trade effects that you mentioned is also a great burden on the rest of the world and one which is not in our interest.

Senator SIMON. Thank you. Mr. Davidson, the first suggestion for modification you make is that total outlays for any fiscal year shall not exceed total receipts for the previous fiscal year by more than 5 percent unless three-fifths, and so forth. As I read that, if we were to adopt that, if we wanted to have a long-term care program and wanted to have, let us say, one-half of 1-percent increase in Social Security to pay for it, that would require a three-fifths vote of Congress.

Mr. DAVIDSON. If you are going to have a significant change in the tax base, that would be true, but it is very unusual for the tax base to be magnified by any substantial amount. If you are raising taxes by more than 5 percent, it would be odd. I mean, it doesn't happen often.

Senator SIMON. Well, you have an automatic growth factor that is there already.

Mr. DAVIDSON. Right. The purpose of this is to assume that you have a kind of equilibrium. We really have a big disequilibrium, but assuming that this—by the way, if you are talking about long-term care, the President seems to want to have his health proposal put into effect this year or next year at the latest. By the time this amendment would take effect, anything like that would already be in the base, I would assume.

Senator SIMON. I am just using this as an example.

Mr. DAVIDSON. I think what I am saying is that the effect of this would be to take away two problems. One of them is the problem of estimation where you come down to the end of the fiscal year, and if you have actual outlays not exceeding actual receipts and you come to the end of the year, then you have a very difficult problem of making disproportionate cuts toward the end of the year or waiving the effect of the amendment.

In this fashion, you could pick any outlays up to 5 percent beyond and just make that the spending for the next year. You would have no problem in terms of wondering what the estimates were. You wouldn't have an adjustment problem through the year, and I think that it would be less procyclical in the sense that if, for some reason, we had a fall-off in the economy and the receipts grew by 1 percent or they fell, you would not be in a position of forcing a reduction in outlays to equate to the fall in receipts.

So, I think that this has, on balance, some advantages. In some cases, it might require less in the way of spending cuts. In some

cases, it might require a harder decision in terms of raising taxes if you were going to raise taxes by an amount that would increase receipts by more than 5 percent. But I think that over the long term it would assure that the amendment would take the effect that you hope, which is that it would be used to restrain the deficit rather than be waived at the end of the fiscal year when we discover that, in fact, receipts have fallen below estimates and we have a big problem and we don't have time to cut enough from the various elements of government, and so we say, well, we had better override it for this year.

We could get into a bad habit, I fear, of waiving the effect of the amendment if it isn't easy to implement it, and I think that by taking that fudge factor of estimated receipts out of the equation and just building in a growth from the historic receipts, in most cases we will find that this will work better.

Senator SIMON. There is an estimation problem which I have assumed we would take care of through legislation. That gets to your second suggestion which may have more merit, although I guess my assumption has been it is kind of taken for granted that the Congress shall enforce and implement this article by appropriate legislation. Have you done any research? Is this necessary?

Mr. DAVIDSON. Well, I think that there is one advantage in it—well, there are many advantages, but the one advantage that I think would be particularly useful, and I would defer to you gentlemen as experts on the law, but as I understand it, this would increase the effectiveness of all of the body of evidence that is developed by the committee and its intention in proposing the amendment to state that not all the enforcement mechanisms are going to be incorporated into the Constitution itself, but that the Congress will have the power and must enforce the constitutional provision through appropriate legislation. That also, of course, gives an opportunity for less dire amendments that might be needed over time. If the implementing legislation were to be changed in some fashion, this would not require altering the Constitution to effect the amendment.

Senator SIMON. This is one I think we ought to research because there may be merit to your suggestion here.

Mr. Ashby, I happen to live in rural Illinois. I don't know too many farmers who don't borrow money. One of the greatest programs we could have for farmers would be to get interest rates down. Am I correct?

Mr. ASHBY. Absolutely correct.

Senator SIMON. And without this kind of an amendment, I just doubt that, long term, you are going to do that.

Mr. ASHBY. This has been one of the concerns and one of the reasons, I believe, that Farm Bureau has for the last 15 years had this as one of its priority issues, this balanced-budget amendment, realizing that farming and ranching is a high-capital type of operation and it is necessary to borrow money for operating expenses and even for buying the farm and that sort of thing. This need of capital is always there and when the Government is part of the competition, if you will, it tends to drive up interest rates and causes an excessive amount of consternation and problems with the farming and ranching community.

Senator SIMON. And that, Mr. Colton, also discourages home construction, right, among many other things?

Mr. COLTON. Absolutely, Senator.

Senator SIMON. And it is very interesting. I don't know if you were here when I read Senator Douglas' warning about what was happening in terms of deficits. The prime rate when he made that speech was 2 percent. It is very interesting that our colleague, Senator Moynihan, asked the Congressional Research Service what would happen to the prime rate if we balanced the budget, not using Social Security to do it. Their estimate is the prime rate would be around 3½ percent. What happens to home construction if we get to either one of those figures?

Mr. COLTON. Home construction, home building and the purchase of existing housing all improve significantly because more and more Americans can afford to buy a house. Right now, we have a large segment of people who are priced out of that marketplace. As you well know, Senator—and it is the numbers you just reflected—that right now, although interest rates have been going down according to recent historical standards, in real terms they still are very high, and the primary reason they are high is because of the great concern that exists because of the deficits and the impact that that has on a daily basis in the capital markets. So this, of all the things we could probably do, would have one of the most significant impacts on housing if it were enacted.

Senator SIMON. Let me just add one minor correction that I hear over and over. When you talk about over \$200 billion going for interest, in fact, that is the net interest figure. That subtracts the interest earned by the trust funds.

Mr. COLTON. That is right.

Senator SIMON. We don't calculate the Justice Department budget that way, saying, well, they got so many fines and so they only have a budget of so much. To use an extreme example, the IRS, we don't say they collected so much money, so we are not spending any money on the IRS. The reality is—and our colleague, Fritz Hollings, has been eloquent on this—the real interest figure is the gross interest figure, which is now over \$300 billion.

Mr. COLTON. We often use that, too. I just didn't want to exaggerate the point, but you are absolutely correct, Senator.

Senator SIMON. Senator Brown?

Senator BROWN. Thank you, Mr. Chairman. First, let me commend you for identifying what I think is one of a number of perhaps misleading methods we use in keeping our books, and that is the gross interest versus the net interest. The reality is if we ever intend to honor our Social Security obligations, that payment of interest to Social Security is a real expense because Social Security will indeed need the money to pay it out.

Mr. Davidson, let me commend you on what I think is a very interesting recommendation in this area. It accomplishes something that may be, in the implementation of this amendment, the most significant factor, and that is to somehow deal with the draconian decisions you get to when you try and balance the budget. I say draconian. I don't think they have to be draconian, but there is no question they are tough. You provide us a way to work toward that

without draconian decisions, which may well have been the reason why Gramm-Rudman was so difficult to get Congress to abide by.

I was intrigued in your presentation with your reference to the functioning of the gold standard. As I heard your comments, you suggested that the gold standard, while we followed it, provided a discipline for our fiscal matters. I hadn't heard that description of the gold standard before and I wonder if you might amplify on that.

Mr. DAVIDSON. I would be glad to, Senator. First of all, I think that one of the things you find interesting if you do a lot of reading of history is that yesterday's complaints become today's solutions. Back in the early part of this century when we were still on a gold standard, those people who thought that the Government ought to be spending more and were concerned about the effects of the gold standard in limiting deficits criticized the impact of the gold standard, as its operation then happened, in stopping the growth of spending.

For example, in 1902 Theodore Burton said an excess of expenditures is immediately felt in the decrease of the gold reserve, and therefore this leads to a contraction of the money supply which led to a recession. So, when Congress in those times ran a deficit, it did so at the peril of causing a recession, which tended to be bad for the reelection interests of Members of Congress.

If you go back not so long ago to the period of 1971 when Mr. Nixon severed the last weak links in our currency system to gold, one of the things that they were debating was a request from Europe that was very much like the request that came to Henry Fowler and to President Johnson before the last budget surplus, the meager surplus that we ran in 1969. The Europeans essentially served notice—and Professor Calleo may have further background on this—that if we didn't balance the budget, they were going to cash in their dollar chips for gold, and so we balanced the budget.

President Nixon was informed that if he wanted to have the big boom that he was looking for in the 1972 election, if he had to suddenly balance the budget this might cause him a more difficult reelection challenge. So they decided to sever the last link to gold. It was because of the deficit connection that the last link to gold was severed.

I think that it is not a surprise and, in fact, it is exactly what you would expect that ever since that connection has been broken the deficits have gone skyrocketing up. The chart that was standing here behind Senator Hatch a little while ago shows that quite clearly that the deficits for the earlier years—even for the 1960's the deficits which were at that time very large—and everyone talks about the Vietnam war deficits as having sent the country on a wave of inflation, but the total deficits for the years 1961 through 1970 only came to \$60 billion. So you are talking about a very low deficit.

Senator BROWN. Let me take you back for a minute, though. I think the assumption that a reduction in reserves, whether gold or silver, could cause a contraction in the money supply is probably something you wouldn't get a lot of debate on, obviously; that is, assuming that you base your currency upon redeeming it in gold or silver. So, I think that link is quite clear, or can be quite clear

if you do indeed base your money supply on that. You mention, though, that deficits caused a reduction of reserves.

Mr. DAVIDSON. Well, let me explain it.

Senator BROWN. How is that?

Mr. DAVIDSON. Well, I think it is a fairly clear case of the answer to the question of what happens next. Every one of us sitting here is aware that if the Government runs a huge deficit that this creates a potential for inflation, and right around the world many, many countries have come into big problems because people who bought the debt feared that it would be repaid in money worth less than the money that they lent to the Government during the transaction of buying the bond, and this has happened not just in Third World countries. It has happened in Western Europe within the last few months where countries have had to have major devaluations of their currencies.

For example, the Swedes did that not too long ago because they were running a huge structural deficit, and people thought, well, if you are going to have this huge deficit, we are going to sell your currency. If you have a gold link, what people would do and what they did do in the past is if they saw a big deficit that indicated irresponsible policy, they would turn in their paper money for gold, and withdrawing gold from the system withdrew high-powered money from the banking system.

Until 1968, we had a law that required that our total money supply could not exceed four times the monetary base of gold reserves, so that to take a little bit of gold out of the system in terms of trading the paper for gold reduced the money supply by at least four times over, so you had that major contraction.

You need only imagine what would happen if the law stated now that the Federal Reserve will reduce the U.S. money supply by 1 percentage point for every percentage point the budget is out of balance. You would have a major economic crisis every time you had a deficit and there would not be deficits because the economic effect of the deficit on the electorate would exceed the benefits that Congress gains by spending money out of an empty pocket.

Senator BROWN. You are literally saying that one of the considerations of Congress in trying to make income and receipts balance was the potential withdrawal of reserves from the Treasury if you did run up huge deficits?

Mr. DAVIDSON. I think it was more a concern for what would happen to the economy.

Senator BROWN. Because of that link?

Mr. DAVIDSON. Because of the link. There was a very complex link that ran through the current account deficit. After 1933, only foreign central banks could trade in their gold for dollars, or dollars for gold, and this created a mechanism that had an elaborate feedback effect, but the feedback effect was real, nonetheless, and it did contain the deficits.

I think you saw in the 1960's, as this process began to break down with the fixed exchange rate, the Bretton Woods exchange system, President Kennedy in the first satellite broadcast used that occasion to assure European central banks that the United States was going to maintain the link of \$35 to an ounce of gold forever. We were committed to this. We put in an exchange stabilization

tax to help encourage Americans to keep their money onshore so this wouldn't put extra pressure on the gold link.

When Congress voted on the budget, what they were doing and what the Treasury Secretaries were doing was indirectly reflecting the pressure on the money markets and the pressure on the economy that was caused by that whole system that was first set down by the Founding Fathers in 1787 and was greatly eroded over time so that at the end of the day it was only a pale shadow of what it had been. But the effect was that it worked to contain the deficits. Take that away and you have no longer any outside external process which limits the deficits and the effect has been that the deficits have gone wild.

Now, I would say that there probably is an effect, but I would compare it to this. I think if you have a system that overheats and you have a sprinkler system that turns on the water and cools things off, that is a feedback effect that prevents the thing from really getting hot. What we have gone to now is away from a sprinkler system. We only have the kind of system that will work in the event of catastrophe. If the bond markets in the world were to collapse and if the U.S. dollar were to collapse because people feared a complete catastrophe, you would go from the sprinkler system to having somebody spray water on your burning house, which is a much worse alternative.

So what I am saying is the balanced-budget amendment is a very important process reform that will preserve the integrity of the Government and the strength of the Congress and the administration to meet the country's problems because without it we will continue to slip, I fear, in the direction that Professor Calleo has pointed out to a higher and higher deficit, ultimately not being resolved by cool reason, but by a crisis.

It has been in Sweden, in Finland, in Norway, in Great Britain, in Spain, in Italy and other countries that are not primitive countries, that are rich countries, but countries that have found that they have exhausted their capacity to expand their structural deficits without real economic pain. They had interest rates at 500 percent in Sweden. I don't know what that would do to the housing market, but I could guess it wouldn't be good.

You look at that kind of situation in Ireland. They had very, very high interest rates because of these huge structural deficits that they could not finance with the credibility of the markets. I think that that is the danger if we don't get a balanced-budget amendment. If we keep running down the balance sheet of the country, at some point, though the United States is very rich, there is a limit to how far we can go and when we reach that limit, we will be in trouble.

Senator BROWN. I appreciate that. I think that observation that you brought up is very helpful. Mr. Chairman, with your permission, I would like to ask one other question of the panel.

Senator SIMON. Go ahead.

Senator BROWN. One of the aspects of the amendment before us is one that I have some concern about. Nevertheless, in the interest of moving forward I have cosponsored the bill, but it continues to be a concern and it is specifically this. To increase taxes under this measure would require a majority vote of Congress. To move with

regard to spending, though, or to proceed with higher spending or increases in the debt, you are looking at a three-fifths vote.

It has been suggested by some that this leads to a bias toward increasing taxes; that is, if you have a majority for a movement, it can be done by increasing taxes, but you need three-fifths to increase the debt. Does this unduly bias us toward tax increases if this amendment is in place, or is that something that you think will work out?

Mr. COLTON. Senator, I guess that is an issue that I made reference to and, quite frankly, the National Association of Home Builders has supported in the past amendments that would have parity, if you will, so that the same vote would be required both to increase spending or to increase taxes. I guess we made the same decision that you made that in the spirit of trying to get something to pass, because we have been now watching this kind of an amendment for the last few years and have been anxious for something to occur, we were better off in trying to support strongly this Senate joint resolution the way it is constituted, recognizing that it does require a three-fifths vote if the deficit is going to be ignored or put aside.

That bias might be there, but we are better off moving forward with something that can achieve some consensus, if you will, and pass the House and the Senate and be approved by the President, and so that was the decision that we made. We have that concern, but we think the time for action is now and so therefore we are anxious to work with you to get bipartisan support for this resolution the way it stands.

Mr. ASHBY. I would just second what Mr. Colton said. The Farm Bureau's belief is that there needs to be stronger tax limitation, but again this is better than the status quo, better than what we have got, and one step forward is certainly what we are looking forward to.

Mr. DAVIDSON. Well, I agree. I think that there is obviously a strong tendency in the system to raise taxes because they have been raised over the years, but I think one of the major factors which has been driving up the tax increases has been the deficit itself. Therefore, if we control the deficit, I think that there will be a more rational policy in terms of taxation which would, I hope, work out over the long run to the benefit of the country.

Although I favor, certainly, a strong tax limitation, I think that this amendment as it now stands is much preferable to the present system which is one in which taxes have been going up quite sharply in some areas, and we are going to be driven to still higher tax increases, as judged by the President's budget proposals, ultimately to try to bridge this huge gap. So, I think that those who oppose this amendment, because it doesn't have a stronger tax limitation, are actually letting the best be the enemy of the good.

Mr. CALLEO. I really have nothing to add to that. It seems to me the problem is passing legislation and then not figuring out how to pay for it. Insofar as the link is made tighter, which this would certainly do, that is very much a step in the right direction.

The other element, of course, is that it may impose more efficiency on the kind of legislation that is passed if people have to be more sensitive to what the costs are and if higher costs are imme-

diately translated into the necessity for higher taxes. It seems to me it just imposes more discipline all around.

Senator SIMON. If I could just comment briefly, it is very interesting that the Wall Street Journal and the New York Times both came out against in editorials this last time. I hope they will rethink their positions. In the Wall Street Journal, I think the heading was "Simon's Tax Folly." It said this was going to force all kinds of new taxes. The New York Times says we are not going to solve our problem through taxes; it is going to mean massive cuts in spending.

The reality is it is going to cause us to face reality, and if I can use the illustration I used before to Mr. Davidson, I introduced this bill last year for a one-half of 1-percent increase in Social Security to pay for a long-term care bill. Two of my colleagues in the Senate, who shall remain nameless, came to me and said they thought this was a really great bill; they would like to cosponsor it if I would just drop the one-half of 1-percent increase in Social Security to pay for it. Right now, we can do that. We can have a great long-term care bill and not pay for it.

What this constitutional amendment will do will say if you want to have a long-term care bill, you have to pay for it. Now, my colleagues and I may differ as to whether or not we should have one. We shouldn't differ that if we have one, we have to pay for it, and that is what this constitutional amendment does.

Senator Hatch?

Senator HATCH. Well, thank you, Senator Simon. Keep in mind that one reason we decided on this type of language a long time ago, long before the current Senate resolution was done, is that to increase taxes doesn't just take a majority vote; it takes a constitutional majority. A lot of people miss that. That constitutional majority is very tough to get. There aren't many tax bills that pass by 51 actual votes in the Senate and 218 actual votes in the House.

With regard to the three-fifths majority requirement for spending increases, though, we did want to put the emphasis on spending restraint because that would tend to keep the taxes down, as Mr. Davidson has said. If you put the tax vote requirement up to three-fifths, we clearly don't have enough votes to put it through either House of Congress, and this is so because it is tough to pass tax bills. It is not tough to pass spending bills in this body. That is the reason for the language of the current resolution.

Now, Professor Calleo and Jim Davidson, I just recently read this book by Figgie with the title "Bankruptcy 1995," and his contention, as I understand it, is that if we don't do something about the exponential rising interest against the national debt that by 1995 we will be spending approximately 85 percent of all income taxes on interest against the national debt. Now, I think that is the worst case scenario, but I think he makes a pretty good case that we are being profligate.

Could either of you comment about how exponentially interest against the national debt is really going up?

Mr. DAVIDSON. Well, I would say that he basically has a logarithmic chart with a straight line on it, and that is bad news, if you know anything about charts.

Senator HATCH. Sure.

Mr. DAVIDSON. Another way of looking at the problem is that in the 8 years of the Reagan administration we had a very big increase in the national debt. In the Bush administration, the increase in the national debt in 4 years was quite substantial, but we have had a doubling of the deficit in a halving of the time. If we keep going in that direction, we are going to have a \$600 to \$700 billion deficit at the end of the Clinton administration, which would be very close to achieving the unfortunate forecast of Mr. Figgie.

I don't think that it is completely unrealistic. I hope that we will learn enough before that date hits. We will have had enough of an impact from the bond market or from other outside forces. Probably, we would have a dollar crisis before we would reach that level because the holders of dollars around the world are not going to sit there asleep until the calendar comes around to a point where we really are in a complete pickle, like Italy, which is what Figgie is forecasting.

The Italians basically have lost control of their fiscal policy. They have a national debt which exceeds their gross national product and they have to spend 10 or 15 percent of their GDP, depending on interest rates, in order to finance the overhang of the debt. We don't want to get in that position.

Senator HATCH. Well, if interest rates go up, we are going to have an exponential growth that is even worse.

Mr. DAVIDSON. Right. The magic of compound interest is what is working against us.

Senator HATCH. Right. Professor?

Mr. CALLEO. I don't know about this particular projection and, as Mr. Davidson suggests, there are all kinds of particular things that can happen along the way. But it is true, certainly, that we are in what some people describe as a sort of Ponzi situation. Do you remember that famous swindler in Boston?

Senator HATCH. Sure.

Mr. CALLEO. I mean, we are borrowing fresh money to pay the interest on the debt, and it means, in effect, that the debt is growing, self-propelled so to speak, and I think we see that in the rapid growth of the proportion of the Federal budget which goes into debt service. So, I mean even if we don't increase spending, there is this sort of built-in mechanism now which makes the debt grow rapidly. I mean, that is reflected, I guess, in the figures like adding \$1 trillion to the national debt every 2, 3, or 4 years. Maybe it will be five, maybe it will be two, but it is in any case an enormous growth which has become exponential.

Senator HATCH. Well, that is very significant. I have to tell you that none of us particularly would like to amend the Constitution except we feel, without this discipline, that is exactly what is going to happen. It may not be by 1995, but it is certainly going to happen sooner or later because we can't continue to be profligate the way we are being here. There is no reason to set priority choices among competing programs under the current situation. People think we are just going to continue to go on and on the same way.

Let me bring it down to practical matters with you, Ken Ashby and Kent Colton. Each of you represent organizations that represent a lot of people who have real economic problems and real

economic accountability. If you can give us some specific examples, tell us how your members have been or will be affected by continuing Federal budget deficits. Shall we start with you, Mr. Colton, and then Mr. Ashby?

Mr. COLTON. Certainly, I think it relates back first to what we talked about already, the impact of the Federal deficit on interest rates and what happens in the marketplace because of that, and there really are two impacts. There is the rate itself and then there is the availability of credit. We have just over the last several years gone through in the housing production side of our industry a significant credit crunch in terms of getting money not just to—the money was always there for mortgages for the borrower, but the difficulty of credit for the housing production side for being able to build houses, construct them, and certainly being able to develop and acquire land. This just aggravates that problem in terms of availability.

In addition to that, interest rates have a significant impact on the ability to produce, as well as for borrowers to buy. If you raise the interest rate on mortgages by 1 percent, you literally price several million people out of the marketplace if you look at the entire potential set of buyers out there. So, the psychological impact and the real impact that the deficit has had a major impact on the housing market and is something that we are severely concerned about and therefore strongly support this amendment.

Senator HATCH. Mr. Ashby?

Mr. ASHBY. The Farm Bureau does represent over 4 million member families across the United States, and this is always a difficult thing as far as taxes go and the ability of farmers and ranchers to have the credit available to them. Ultimately, what happens is that the consumer will pay higher prices for food. Farmers and ranchers don't have the ability to pass on increased costs of production as some other retailers would have.

We produce a raw product that then goes through many processes of manufacturing and transportation and all of the other things associated with getting food and fiber of the land to the consumer. But, ultimately, if we continue to do business, as we have done in the past and put farmers and ranchers under a continuing burden of higher taxes, there are going to be those farmers and ranchers who just simply go out of business. When that happens, then we are going to see higher prices.

We could take it, I guess, to its ultimate conclusion and drive the farming and ranching community completely out of the United States and then have to import things. We just don't do that and I don't see that as happening, but, you know, you could look at that as being a worst case scenario if we continue to do not only this type of fiscal irresponsibility that we have seen, but other regulations and things that are coming upon the farmers and ranchers across the country. That is another story, but this certainly has a profound effect upon the farming and ranching community in its ability to produce the food and fiber for this land.

Senator HATCH. Well, thank you, and I must say that I think we are going to lose the family farmer if we don't watch out, and we will lose the average home builder because they just plain cannot

compete without the availability of reasonable funds at reasonable interest rates.

Well, I have a lot of other questions, but I think my two colleagues have asked some very significant questions and we have had some very interesting and good answers here today, so I will end at that. Thanks, Mr. Chairman.

Senator SIMON. We thank you, Senator Hatch, and we thank all four of you for your testimony here. We appreciate it.

Our final panel is Mr. Max Sawicky of the Economic Policy Institute, Rudy Oswald of the AFL-CIO, and Robert Greenstein of the Center on Budget and Policy Priorities. Unless you have a preference, we will start with you, Mr. Sawicky.

PANEL CONSISTING OF MAX B. SAWICKY, ECONOMIC POLICY INSTITUTE; DR. RUDOLPH OSWALD, DIRECTOR, DEPARTMENT OF ECONOMIC RESEARCH, AFL-CIO; AND ROBERT GREENSTEIN, DIRECTOR, CENTER ON BUDGET AND POLICY PRIORITIES

STATEMENT OF MAX B. SAWICKY

Mr. SAWICKY. Thank you, Mr. Chairman. I appreciate the invitation to testify and the attention of anyone that cares to listen or read my testimony.

Not to mince words, I think, in a nutshell, as far as economic policy and fiscal policy is concerned, this amendment is possibly the worst thing you could possibly do, although the return of the gold standard might run a close second. If the deficit is a ticking time bomb, I think this amendment could be called an attempt to defuse it with a sledge hammer. That is not to dispute the importance of deficit reduction over the long term. I will stipulate from the outset that the projects for the deficit are higher than they should be for the sake of the economy and that the current path of the deficit is unsustainable. There is no question about that.

All the discussion about the ill effects of deficits, or a good bit of it, I should say, I will stipulate at the outset, so that is really not the issue, I don't believe. The issue is how to deal with it, what to do about it, and I will just make four basic points.

First of all, 2 or 3 weeks ago I was privileged to hear a talk by Prof. James Tobin of Yale, who is a Nobel laureate in economics, and in light of the current economic situation, not the one 3 months ago, but so far as we understand the present situation, Professor Tobin advocated an increase in the current deficit on an annual basis of in the neighborhood of \$60 billion, the reason being that currently the economy is approximately 5 percent below potential GNP and if you accept the conservative idea of the effects of a deficit increase in terms of stimulus, \$60 billion would improve income by in the neighborhood of \$90 billion, which would be well below the threshold at which one might be concerned about inflation.

Currently, there are, of course, tens of millions of workers either unemployed, underemployed, dropped out of the labor force, or feeling at risk in terms of their jobs and if this amendment were in place, these people would basically be condemned to a very unhappy future, and I think that is the first reason why this amend-

ment is absolutely the worst economic policy one might consider. It prevents the Government, or makes it more difficult, and it is not very easy to begin with, to alleviate recessions. It could turn recessions into much more serious recessions than we have seen.

If Congress finds it difficult now to embrace a stimulus in the neighborhood of \$15 billion in light of the current low levels of output and the low levels of job growth, then imagine how difficult it would be for Congress to summon the will to do a proper stimulus, which would be in the neighborhood of 1 percent of GNP, or about \$60 billion. So, first, I believe this amendment is a formula for economic stagnation.

Now, what a lot of people have been saying is kind of contradictory. They say, well, \$15 billion is too small to have an effect, which implies that there would be a good effect, but it would be small. Well, the implication of that is to do more than \$15 billion. The alternative, which is somewhat more consistent in terms of the logic, is people say, and it is a fair question, well, we have had a lot of deficit increases over the 1980's, what good has it done us? I would simply caution you that there are a couple of considerations in how one regards that.

First of all, since 1981 you could argue that changes in the deficit helped to fuel the recovery. In fact, if you measure or understand the deficit correctly, I think you can come away with that conclusion. First of all, the inflation-adjusted measure of the deficit is more relevant than uninflation-adjusted. Besides, the deficit relative to the economy is more important than the size in absolute, isolated terms.

Second, what is at issue is not the deficit that comes out of the unified budget, but what is called the full employment deficit, which is the deficit we would have if there were full employment. The reason is that about \$90 billion currently of the deficit is due to low employment. The Government is accommodating the deficit by increasing unemployment compensation and other spending and accepting lower tax revenues. That is not a stimulus of the economy. That is accommodating the downturn in the economy. If the Government was unable to do that, it would put us in much worse shape in terms of employment.

So, stimulus really is about the change in the structural deficit, the full employment deficit, relative to the size of the economy, and if you looked at the path of those figures you would find a reasonable correspondence, although clearly other things happen which affect the economy, between that over the period of the recovery and throughout most of the 1980's, and you would find very small changes in that structural deficit relative to the economy during the term of President Bush, which is one reason I think President Bush is now back in Texas. So, that is the answer to this idea that we have had so much deficit, why hasn't it helped us more.

Second—

Senator SIMON. If you could conclude your remarks.

Mr. SAWICKY. I am glad to, OK. Let me wind up quickly. Let me make an argument which you may not have heard before, which is I want to persuade you that you are not as bad as you seem to think you are in the following respect. What is called profligacy in terms of spending really devolves to two issues. One is the extent

of inefficiency in spending—waste, if you will. I would argue that has absolutely no relevance to the future projections of the deficit.

Any victory you can win, and I hope you win many, in terms of reducing waste—in particular, discretionary spending—is overwhelmed in a matter of months by the increase in the mandatory part of the budget. Of course, if you look at those programs more closely, the things that leap out at you are two programs, basically, Medicare and Medicaid. So I would argue, in terms of the future deficit, the problem is not to balance the budget. The problem is to fix health care. All the other attention is really a side issue and this balanced-budget amendment is really a diversion from that endeavor and from the very real deficit reduction program that has been laid in front of you by President Clinton.

Thank you.

[The prepared statement of Mr. Sawicky follows:]

PREPARED STATEMENT OF MAX B. SAWICKY ON BEHALF OF THE ECONOMIC POLICY
INSTITUTE

A FUNDAMENTAL RETREAT FROM RESPONSIBILITY

If implemented, Joint Resolution 41 would shrink the economy, destroy jobs, and cripple the ability of the Congress and more generally the entire public sector to fulfill its central responsibilities. Last year, over 500 of our nation's most prominent economists and 100 of our constitutional lawyers advised against such a course of action. Citing this body of prestigious opinion during last year's debate, a radio commentator ended his report with a question: "Whom do you believe, the economists or the politicians?" Last November 3rd the people answered by handing the advocates of fiscal austerity and the bashers of Congress a decisive defeat.

Since Richard Nixon is being rehabilitated, I am encouraged to characterize this bill with a slogan—slightly altered—from one of his campaigns: "Now less than ever!" Now that divided government has ended, now that we have a President who has demonstrated a capacity for leadership in reducing the budget deficit, and most of all, now that we have been presented with a specific plan to drastically reduce the deficit over the next five years, now the last thing we need is a repeat debate on a bill that would be disastrous economic policy and atrocious governance. It is fundamentally a distraction from the real and relevant choices before the nation. It is a cop-out, a gimmick, and a substitute for responsible action.

A FORMULA FOR ECONOMIC STAGNATION

If a constitutional amendment somehow forced the Federal government to balance its budget every year, would this improve our economic prospects? The answer is a decisive no. Nobody has discovered how to prevent downturns in the business cycle, and as long as we are afflicted by these unpredictable events, the nation's workers will suffer prolonged bouts of unemployment and the associated social costs. Aside from the obvious loss of income and wealth, unemployment incites fear in the tens of millions of families whose breadwinners' jobs are at risk. It expands the welfare rolls, it deprives people of health insurance, it fosters the breakup of families, it saps the basic strength of the nation.

There are those who view unemployment as a useful device for "disciplining" workers—for restraining wage demands and inflation. The morality of this view aside, properly speaking inflation should only be a concern when unemployment is near five percent, if not less. Deficit reduction under conditions of economic slack—idle workers or factory capacity—prolongs recessions. For the same reason, such efforts are ultimately self-defeating, since a sagging economy reduces tax revenues, increases public spending, and reduces private savings and investment. The means and ends of deficit reduction are compromised by its untimely application, the since the proposed amendment is indifferent to prevailing economic conditions, its effects are guaranteed to be ill-timed. If economic stimulus is difficult now in the face of obvious needs, the passage of this law could only make it more difficult and less likely.

These days the Federal budget deficit is near \$300 billion, so it is quite reasonable to question why such borrowing has not relieved us of our current economic difficul-

ties. Understanding the mechanism at play should disabuse anyone of the notion that the economy is "over-stimulated."

The first consideration regarding stimulus is not the unified budget deficit but what is called the "structural deficit"—this is the level the deficit would be if the economy was at full employment. A measured increase above this level does not reflect government stimulation of the economy, but the economy sapping government saving. When unemployment is high, taxes fall and certain public spending rises. In this way the government accommodates the economy with higher deficits, but it does not take affirmative steps to reduce the deficit. About \$90 billion of the current deficit is estimated by the Congressional Budget Office to be due to the recession—not to stimulation.

The next consideration is the size of the structural deficit relative to the size of the economy, as reflected by the Gross Domestic Product (GDP). Dramatic, absolute numbers in the billions or trillions are not informative. Moreover, we need to consider the *change* in this magnitude, not its absolute level. To stimulate GDP, one needs to increase this ratio. The change in the deficit/GDP ratio between 1991 and 1992 was only half a percent of GDP. In each of the two years before that it was even less—.3 percent. The standard economic prescription for stimulus is one percent of GDP. Small wonder the economy creeps along and Mr. Bush is big in the grandchildren business.

In summary, balanced budgets prevent increases in the structural deficits needed to shorten recessions and recreate jobs. They are a prescription for economic stagnation.

DEFICIT REDUCTION: YOU CAN'T GET THERE FROM HERE

If unemployment was below six percent we could begin to think seriously about deficit reduction. We need first to consider the forces causing the deficit to persist and to grow. To do this, we simply need to look at why outgo is increasing faster than in-go.

If we consider the components of expenditure growth since fiscal year 1986 and of projected spending in the 1990's, four items leap out at us, in stark contrast to the rest of the budget. These items are Social Security, net interest payments, Medicare, and Medicaid. The growth in these items overwhelms the most heroic efforts at deficit reduction. In the 1980's, total discretionary spending grew more slowly than revenues or GDP. In this respect, the Congress exercised Spartan self-discipline. (If you don't want to compliment yourselves, the job falls to me.) Certain items in the mandatory category grew at close to the rate of GDP, but the four items listed above were miles ahead, and as you know these items are also quite large in size. To make the matter explicit, if you were able to reduce discretionary spending by \$50 billion for fiscal year 1994—no simple task—the growth in these other items would expunge your achievement by August of 1994. You would be further from your goal than before you had begun.

Social Security and Medicare have been self-financed up to now, but Medicare will be going into deficit and net interest payments cannot be directly reduced. So we come back to health care. We don't need a Balanced Budget Amendment. We need a new system of national health insurance. The proposed constitutional requirement to balance the budget, if it took effect, would rapidly compel the dismantling of the public sector. Some people would welcome this outcome, but I presume this is not the case for at least some of the sponsors of this bill, including the most prominent sponsor.

GRIDLOCK TIMES TEN

What I've been assuming thus far may be too generous: that the proposed Amendment would work as advertised. But we need more truth in advertising. This is not a balanced budget amendment—it is a spending cut/tax limitation amendment. As such it sacrifices the goal of deficit reduction to the ideological bias against government. It is a constitutionalization of Reaganomics, which is a questionable interpretation and response to the peoples' mandate last November and an unbecoming position for the majority of this Committee.

As noted above, the key to deficit reduction is health care reform. Any other approach entails an annual revisiting of every existing program in the budget, some of which will require the revision of complex rules of eligibility and benefits in entitlement programs. If Congress is overworked presently, how would we expect it to fare under such a burden? The answer is it would not be able to cope. The wheels of government would grind to a halt—an event which would trumpet the nonfeasance of elected officials. Worse, we would witness the breakdown of actual pro-

grams on which the nation depends, and the stage would be set for precipitous, ill-considered, and drastic changes in public programs.

Ultimately the proposed amendment disenfranchises its own authors. While some may admire this as an honorable act of forbearance, I hasten to remind this Committee of the historic significance of an independent, competent, and empowered legislature in a democratic society. It is only the Congress that makes our system a democracy, and it is only through the Congress that the people can most directly exercise their political franchise in national affairs. Future generations should retain this right, and the proposed amendment will deprive them of it. It is, after all, the right of the people to work their will through elected representatives. It is not for elected representatives to foreclose their own freedom of action, since in doing so they really restrict the liberty of future voters.

CONCLUSION

Although I would welcome tax increases for the purpose of closing the deficit over a prudent period of time, I would oppose any modified amendment which mandated a balanced budget by, say, an automatic tax increase. The paramount duty of the Federal government regarding budget balance is to ensure full employment and long-term growth. A rigid requirement to balance the budget prevents the attainment of full employment, and the resulting persistence of unemployment jeopardizes long-term goals of deficit reduction and economic growth.

Of course, I have not even addressed myself to plausible scenarios under which the amendment failed to fulfill its designated goal. Once again, an institution as essential as Congress cannot afford to sully its reputation by a full-scale implementation of the duplicitous budgetary gimmicks we might expect if the Amendment came to pass. Once again, I must emphasize that the responsibility here is to our fundamental democratic ideals, not to the ritual observance of retrograde ideological agendas, failed economic policies, or other superfluous concerns.

No other nation lives comfortably under such a restriction. Our states can do so—albeit in the most limited and piecemeal fashion—only because our national government does not.

It is well for Members of Congress to be mindful of their demonstrated capacity to govern. If you say the deficit is too high, you ought to be able to reduce it. The problem is that you can't reduce borrowing without reducing the need to borrow, a need which does not stem from Congressional malfeasance but from the underlying state of the economy and the inefficient organization of our health care system. A balanced budget only makes the pursuit of solutions in these areas more difficult, if not impossible. In the end, your ability to govern depends on your ability to make decisions, not on your ability to set rules which prevent you from making decisions but facilitate excuses for inaction. The people will not judge you by your rules, but by your results. The results of paramount interest are jobs and economic growth, not a balanced budget.

Senator SIMON. Mr. Oswald, a veteran here before our committee.

STATEMENT OF DR. RUDOLPH OSWALD

Mr. OSWALD. Thank you, Mr. Chairman. I appreciate the opportunity to appear again before this committee. I, too, echo the concern of the AFL-CIO and its 14 million members with this amendment. At its meeting last year, it formally adopted a statement opposing a constitutional amendment for a balanced budget, as it has many times in the past. We believe that nothing in law now prevents the submission by the President and the passage of the Congress of a balanced budget.

On the other hand, a constitutional amendment would put the Congress and the economy into a straitjacket that would aggravate the economic consequences rather than make them better. It would take policymaking out of the hands of Congress and the administration and would put it into a numerical straitjacket in terms of what happens, unless there are super majorities to overcome those sorts of situations.

The amendment would also undermine the effect the automatic stabilizers that are built into the economy that now temporarily reduce tax revenues and hike unemployment and welfare spending when the economy slows down. A balanced-budget amendment would not solve the imbalances between spending and revenues. Instead, it would lead, in our view, to more budget hocus pocus than to anything else.

We agree that the current size of annual deficits and what has occurred over the past decade is a matter of concern, but you also need to put it into, I think, a broader historical perspective. As you all know, coming out of World War II the debt amounted to some 123 percent of gross domestic product and it gradually was reduced to 34 percent of GDP by 1980. All that took place without a constitutional amendment.

Yes, it has been reversed since 1980 and now represents 72 percent of GDP, but if one looks at the major elements that affected that increase in debt during the 1980's, it was the increase in defense spending that was not paid for, and you mentioned, Mr. Chairman, your own program for raising the money to pay for extended health care. But at the same time, there was a massive cut in taxes, particularly for the wealthy, and also for many corporations as their burden has gone down.

But under this amendment, while a simple majority of Congress passed those tax cuts, to reinstitute that same tax would require, as Senator Hatch had indicated, a constitutional majority, a higher level than the current law allows for cutting the budget.

We have been strong supporters of President Clinton's program for economic stimulus and for budget deficit reduction, but even his plan to raise taxes that it includes would require a higher threshold than the current law requires because it has tax increases and that would require a constitutional majority, and we think that is wrong.

Often comments are made about States having a constitutional requirement, but we think that would be wrong for the Federal Government because States take exactly the wrong steps during a recession. They cut programs, they raise taxes and they are supportive. There is no major country that I am aware of that has a constitutional requirement for a balanced budget.

The Federal Government's program in terms of a recession—we would not be able to put into effect an extended unemployment insurance program without a vote of 60 percent of the Congress during a recession, something that has repeatedly been done in terms of taking care of the suffering during recession of workers, but often without a 60-percent majority. We think that this exclusion of recessions from the amendment as currently written only aggravates all the problems that are already inherent in the program itself.

We believe that the current Federal deficit is too high, that a full range of effective revenue and expenditure measures are needed, but that a constitutional amendment is not one of them.

Thank you.

[The prepared statement of Mr. Oswald follows:]

PREPARED STATEMENT OF DR. RUDOLPH OSWALD ON BEHALF OF THE DEPARTMENT
OF ECONOMIC RESEARCH, AFL-CIO

My name is Rudy Oswald, Research Director of the AFL-CIO. Thank you for the opportunity to express the views of the AFL-CIO on a balanced budget amendment. The AFL-CIO opposes a constitutional amendment requiring a balanced federal budget.

Nothing in law now prevents the submission by the President or the passage by the Congress of a balanced budget. A constitutional amendment could put millions out of work and throw a big monkey wrench into the workings of the economy.

It could also take out of the hands of policy makers the ability to direct resources to important national needs and remove the power to deal with recession.

The amendment would undermine the effect of automatic stabilizers built into the economy that now temporarily reduce tax revenues and hike unemployment and welfare spending when the economy slows down. A balanced budget amendment would not solve the imbalances between spending and revenues, as its advocates suppose. Instead, it would lead to more budget hocus-pocus as policy makers compensate for the rule's strictures.

The AFL-CIO Executive Council urged rejection of a balanced budget amendment in a formal statement in May of last year. A copy is attached to this testimony.

Nothing which has happened in the ensuing months causes us to change our mind on the subject.

If anything, the accession of the Clinton administration gives hope that the deficit scandal will finally be addressed in a responsible way after a decade of denial and deferral under the Reagan and Bush administrations.

DEFICIT AND DEBT HARMFUL TO ECONOMY

The AFL-CIO believes that the size of annual deficits over the past decade and the accumulating national debt are appropriate matters of concern.

The deficit was \$290 billion in fiscal 1992, \$341 billion excluding the Social Security surplus. The national debt was \$4 trillion. The debt, which amounted to 123 percent of Gross Domestic Product at the end of World War II, was gradually—through steady economic growth—worked down to 34 percent of GDP by 1980. During the 1980's, the deficits piled up rapidly so that by 1993 debt again represents 72 percent of GDP.

The massive wave of red ink was brought about by outlandish tax cuts for the wealthy and for profitable corporations during the 1980's, along with much higher expenditures for the military. The debt is a long-term burden for current taxpayers and the next generation of taxpayers. It also distorts national budget priorities.

Back in 1980, only about 9 percent of the federal budget was devoted to interest payments on the debt. By 1992, net interest grabbed 14 percent.

If interest now represented the same share of the budget as in 1980, there would be approximately \$70 billion more in the budget for roads, bridges and mass transit or public education or worker training or deficit reduction.

DEFICIT NOT THE ONLY NATIONAL PROBLEM

But cutting the deficit isn't the only national economic problem. The deficit must be seen alongside the question of economic growth and in terms of competing needs for national resources.

The deficit has become a national problem over a number of years. It didn't happen overnight. As difficult as it is for some to accept, the solution will take some time. There is no quick fix.

If one is driving along the freeway at 60 miles per hour, it is not wise to throw the car into reverse.

The deficit needs to be addressed gradually and responsibly as was recently proposed by the Clinton administration in its new budget.

CLINTON BUDGET ADDRESSES DEFICIT

The Clinton budget simultaneously addresses economic stimulus, needed future investment, tax fairness and gradual deficit reduction within the context of a growing economy. The plan submitted by President Clinton is projected to significantly reduce the deficit by fiscal year 1997, with a total of \$250 billion in spending cuts and an equal amount in revenue increases between 1994 and 1997.

That's the right approach. That's the responsible approach.

The administration estimates that the deficit would fall from 5.4 percent of GDP this year to 2.7 percent in 1997 under this comprehensive plan. While not the per-

fect solution, it moves the nation in the right direction while not taking any step that would throw the economy into a tailspin.

The AFL-CIO has endorsed the general spirit of the Clinton package, although we have concerns about the unjustified and outsized burden on federal workers.

Submitting the federal budget to a mindless and mechanical system to balance revenues with outlays would be an abdication of the public policy making power of the Congress. It would tie the hands of policy makers to deal with emerging national needs or sudden crises.

How would the U.S. have dealt with the S&L crisis or financed the military build-up of the 1980's under a balanced budget rule?

How could the nation raise funds to deal with the effects of recession, as the need arises? The budget should be in balance over the span of the business cycle, but not necessarily every year.

STATE BALANCED BUDGET REQUIREMENTS

Some point out the requirement that states must balance their budgets. Of the 49 states that have a requirement for a balanced budget, 44 require the governor to submit a balanced budget, and 37 of these 44 also require the legislature to pass a balanced budget. Why can't the national budget be balanced in the same way?

States take exactly the wrong steps, from a macroeconomic point of view, when recession strikes. The states and cities raise taxes, cancel building projects, lay off workers and reduce services, actually worsening the recession.

The February 1992 Economic Report of the President described the process during the 1990-1991 recession: "In the United States, governments at all levels have encountered budget problems. The sluggish economy and structural problems created deficits at the State and local level. As the economy weakened, tax revenues declined and pressure on spending mounted. To reduce their deficits, many State and local governments have raised taxes, and more are likely to do so in 1992. The tax increases damped private spending, further impeding economic recovery." (p. 24)

The National Conference of State Legislatures reported in August 1991 that states were enacting extremely austere budgets for the next year. The states were struggling with the loss of federal assistance, along with rising health care costs, welfare and the revenue losses related to the recession.

The NCSL found that "State tax increases for fiscal year 1992 so far total \$15.1 billion, the largest dollar increase in history and the largest since 1971 as a percentage of previous year collections * * *". The total would eventually rise to more than \$16 billion. "Of the 46 governments reporting information," the Conference continued, "33 enacted net tax increases for fiscal year 1992. Twelve states raised taxes by more than 5 percent of the previous year's collections. Except for California's increase, major tax increases were concentrated east of the Mississippi River where the recession hit states the hardest. Because of the magnitude of fiscal problems, many states raised personal income taxes and general sales taxes—the mainstays of state tax systems." (State Budget and Tax Actions 1991, p. 1)

FEDERAL GOVERNMENT'S COUNTERCYCLICAL ROLE

The federal government now is able to come to the rescue with positive policies to end recession and put the economy back on a growth path.

A balanced budget amendment would force the national government into the same state role of taking pro-cyclical actions, worsening recession by hiking taxes or cutting spending when joblessness reduced federal revenues.

If a balanced budget amendment were in place and there were a recession, would national policy makers—and ought they—sit idly by while taxes are *raised*, unemployment benefits, welfare and food stamps *cut*, highway and bridge building projects *canceled*, and people thrown out of work? We don't think so.

The Congressional Budget Office points out that the economy now is automatically stabilized when a recession temporarily lowers revenues and increases spending on unemployment insurance benefits and welfare programs. This automatic stabilizing occurs quickly and is self limiting—it goes away as the economy recovers—but it temporarily increases the deficit. It is an important factor that dampens the size of economic cycles.

ECONOMIC STUDIES ON THE EFFECT OF THE AMENDMENT

A balanced budget amendment would have devastating economic effects.

Last year, the American Federation of State County and Municipal Employees and the AFL-CIO commissioned the Wharton Econometrics Forecasting Associates (WEFA) to analyze the economic effects of a balanced budget amendment which

would require the federal deficit to be reduced to zero by fiscal year 1995 and that the reduction would come equally from federal spending cuts and tax increases.

Among other things, WEFA found that the nation's economic output would drop sharply, 4.1 percent less in 1995. There would be 3.4 million fewer jobs in 1995. Personal tax collections would be 19.3 percent higher and corporate tax collections would be 15 percent higher. Social Security taxes would rise, payment to individuals would fall. Millions of people would be thrown out of work and the need to reduce federal spending would lower the amount the federal government spends on unemployment compensation.

A balanced budget amendment is a misguided attempt to achieve by indirect means a result which is difficult to achieve through the normal processes of debate, compromise and political consensus.

We also feel that such an amendment would touch off even more ruses and budgetary sleight-of-hand so that government can conduct its business. Timing mechanisms could be used to shift spending from year to year. Costs would be shifted to the states in order to meet budget goals. Past experiences are certainly instructive with the attempt to move items off-budget or simply "cook" the economic assumptions. We can only expect growth in these sort of practices and a continuing decline in the public's trust in its elected officials.

Such a mechanistic approach to budget-making would also place more power in the hands of unelected bodies such as the court system and the Federal Reserve Board—another abdication of responsibility by the legislative and administrative branches. We see this also as a threat to the doctrine of separation of powers, and a closing off of the budget process from the people.

CLINTON BUDGET A HOPEFUL BEGINNING

Hopefully, the budget process this year—for the first time in over a decade—will balance the need to grow the economy with the need to invest in the nation's future, increase tax fairness, while gradually and firmly reducing the budget deficit. A balanced budget amendment is not needed and would in fact worsen the nation's situation.

Last November the American people voted for change. They wanted real proposals and real action. The nation needs to see that mandate through to its conclusion instead of desperately reaching for the pseudo-fix of a balanced budget amendment.

The AFL-CIO believes that the current federal deficit is far too high and that a full range of effective revenue and expenditure measures is needed—a constitutional amendment, however, is not one of them.

Senator SIMON. Thank you.

Another veteran before this committee, Bob Greenstein.

STATEMENT OF ROBERT GREENSTEIN

Mr. GREENSTEIN. Thank you, Mr. Chairman. Let me start by saying that I think I share with you the view that substantial deficit reduction is necessary for the long-term health of the economy and that there is also a strong need for increased public investment in areas that can boost long-term productivity and growth prospects, such as education and training, infrastructure, research and development, and effective programs for children. But while I favor tough deficit reduction measures, I believe the constitutional balanced-budget amendment is unwise and poses dangers for the economy.

I recognize that you, someone whose leadership I have long admired in many areas, believe this amendment is the medicine the economy and the political system have to swallow, given the current state of the deficit, and I respect that judgment, but believe it is mistaken.

Of particular concern is the fact that the requirement to balance the budget every year, except when there is a three-fifths vote to waive it, means that more stringent austerity measures would be required in periods of slow growth than in periods of rapid growth.

That is the opposite of what should be done to stabilize the economy and avert recessions.

When growth turns sluggish, revenues grow more slowly, while expenditures for programs like unemployment insurance rise more swiftly, and as a result the deficit is enlarged. Eliminating the deficit would require bigger spending cuts or tax increases in such years than in years of more robust growth. Yet, cutting government spending or raising taxes reduces demand in the economy and slows the economy even more. Balancing the deficit during periods of slow growth could push a sluggish economy into recession.

The provision allowing the requirement to be waived if three-fifths so vote is not likely to be sufficient to address this problem. It is unlikely a three-fifths majority could be amassed until after the economy was already in a recession and some economic damage was done. Neither OMB nor CBO have ever, to the best of my knowledge, forecast a recession before one started, which adds to the likelihood that a three-fifths vote wouldn't materialize and budgets would continue being balanced until the economic downturn was underway.

In testimony last year on the House side, CBO Director Robert Reischauer made a number of these points. If it worked, he said, a balanced-budget amendment would undermine the stabilizing role of the Federal Government. He noted that automatic stabilizing occurs when the economy is weak. It occurs quickly, it is self-limiting, and it goes away as the economy revives. He noted that it is an important factor that dampens the amplitude of our economic cycles, but that the stabilizers would no longer operate automatically under a constitutional amendment.

Another issue I think is raised by the timeframe. I know it has been pushed back to 1999, but CBO projects a deficit of \$404 billion for that year. To eliminate a deficit that large in that timeframe would require a retrenchment so large that it would be likely to slow economic growth markedly. Interestingly, a growing number of other deficit reduction proposals such as that issued by the Center for Strategic and International Studies are moving to a longer timeframe than 6 years in their call for deficit reduction.

A related problem is the amendment's failure to distinguish between other Government spending and Government investments in areas where economists stress more investment is needed, like infrastructure, education and training, research development, and effective children's programs. The lack of such a distinction means that such investments would likely be cut further under a constitutional amendment.

Given the massive amount of deficit reduction that would be needed to balance the budget by 1999, it is likely most programs not protected by powerful constituencies, including some key investment programs, would face the budget ax. Cuts would likely be made in most areas where it proved politically feasible without sufficient regard for the merits of a program or whether it is needed to boost prospects for long-term growth. Some across-the-board cuts would be likely, with few exceptions made.

All of these factors lead me to feel that what is needed is not a constitutional amendment, but political leadership and courage and making tough choices, setting national priorities to reduce the defi-

cit while increasing investment in areas needed to help the economy grow. The Clinton budget takes an important first step along that course. One of my fears is that the constitutional amendment would lead to the abandonment of many Clinton investment priorities in the years ahead.

Often, these concerns are dismissed with a note that States balance their budget and the Federal Government should, too. But many States are required to balance their operating budgets, not their total budgets, and have separate budgets for capital expenses, making investments in roads, bridges, school constructions and the like that can be financed by bonds or other borrowing measures and are not subject to a balanced-budget regime.

Moreover, the Federal budget has a far larger impact on the economy than State budgets do, and Federal fiscal retrenchment during periods of slow growth can have adverse consequences of far greater magnitude than State austerity measures do.

Senator SIMON. If you could conclude your remarks.

Mr. GREENSTEIN. Let me just conclude by saying that the fact that States do balance their budgets even during recessions is a reason the Federal Government should not, and that last the amendment would in most years deny the Federal Government a basic practice that most businesses, families, and State and local governments use, which is borrowing to finance investments with a long-term payoff. Businesses that fail to modernize because they could not borrow are left behind. Businesses borrow to invest in new plants and equipment and production processes, and we applaud that.

Families borrow for home purchases and education. You are a leader in the area of student loans, an area where families borrow, and in the long term the payoff will be greater from education. State and local governments, as I noted, borrow to finance construction on roads, bridges and the like, but under this amendment the Federal Government alone would be denied the ability to use that standard business practice and I fear the result would be less long-term public investment in key areas and, as a result of that, less long-term growth.

Thank you.

[The prepared statement of Mr. Greenstein follows:]

PREPARED STATEMENT OF ROBERT GREENSTEIN ON BEHALF OF THE CENTER ON
BUDGET AND POLICY PRIORITIES

I appreciate the invitation to testify here today. I am Robert Greenstein, executive director of the Center on Budget and Policy Priorities. The Center is a non-profit organization that conducts research and analysis on a range of budget and public policy issues.

At the outset, let me state several principles to which I adhere and that underlie this testimony. I believe that substantial deficit reduction is necessary for the long-term health of the economy. There is also a strong need for increased public investment in areas that can boost long-term productivity and growth prospects, such as infrastructure, education and training, research and development, and effective programs for children.

Although I favor tough deficit reduction measures, I believe the constitutional balanced budget amendment is unwise and poses dangers for the economy. With the good start the Clinton Administration and the House and Senate Budget Committees are making on deficit reduction, and with the hope of national health care reform that can yield long-term dividends in restraining health care costs and reducing the deficit, it would be unfortunate if Congress succumbed to the elixir of a balanced budget amendment.

I recognize that many of the leading proponents of this amendment, and particularly the Senator from Illinois whose leadership I have long admired, are sincere and steadfast in their belief that this amendment is medicine the economy and the political system must swallow given the current state of the deficit. I respect that judgment, but like many economists and budget analysts, believe it is mistaken.

In this testimony, I would like to cover three areas: 1) the amendment's impact on the economy; 2) equity issues relating to the amendment; and 3) the amendment's potential impact in causing shifts in power both within and among the branches of government.

I.—THE AMENDMENT'S IMPACT ON THE ECONOMY

Many economists believe the current high level of the federal deficit is unhealthy for long-term economic growth and that the deficit should be substantially reduced. The sponsors of the constitutional amendment say this is why their amendment is needed: it would strengthen the economy by eliminating the federal deficit.

The amendment's likely effects on the economy are, however, more complex than that, and many economists oppose it, believing it could damage the economy more than strengthen it. The amendment would risk causing recessions more frequently and making the recessions longer and deeper. It would also be likely to cause reductions in federal investments that many economists believe should be increased to promote long-term growth, such as investments in infrastructure, education and training, early intervention programs for children, and research and development.

Raising the risk of recession

Of particular concern is the fact that the requirement to balance the budget in all years, except when three-fifths of the members of both houses vote to waive the requirement, means that more stringent austerity measures would be required in periods of slow growth than in times of rapid growth. That is the opposite of what should be done to stabilize the economy and avert recessions.

In years when growth turns sluggish, revenues grow more slowly while expenditures for programs like unemployment insurance and food stamps rise more swiftly. As a result, the deficit gets larger. Eliminating the deficit would require bigger spending cuts or tax increases in such years than in years of more robust growth. Yet cutting government spending or raising taxes reduces aggregate demand in the economy—and slows the economy even more. Balancing the deficit during periods of slow growth can push a sluggish economy into recession.

The provision allowing the balanced budget requirement to be waived—and a specific deficit level to be authorized for a year if three-fifths of each house so approve—is very unlikely to be sufficient to address this problem. It is unlikely that a three-fifths majority could be amassed in both houses until *after* the economy was already in a recession and much economic damage was done.

The Office of Management and Budget and the Congressional Budget Office have rarely if ever forecast a recession before one started. This adds to the likelihood that a three-fifths vote would not materialize—and budgets would continue being balanced—until after the economic downturn was already underway.

This problem would not disappear once a recession ended and recovery began. In the early stages of an economic recovery, unemployment usually remains high and the economy is often weak. Balancing the budget in such circumstances could topple the economy back into a recession, creating a double-dip downturn.

These problems are the primary reason many economists believe that eliminating the *total* deficit, rather than the *structural* deficit, does not make sense. The structural deficit reflects the underlying imbalance, even during periods of normal economic growth, between government expenditures and government receipts. The total deficit, however, includes not only the structural deficit but also that part of the deficit which is due to slow growth or recession and which disappears when the economy is growing at a reasonable pace.¹ The proposed constitutional amendment ignores this distinction and requires elimination of the total deficit. As a result, it would require the largest deficit reduction actions to be taken in the very years such actions would be likely to damage the economy rather than strengthen it, resulting in a loss of jobs and income for American families.

In testimony last year before the House Budget Committee, one of the nation's most respected economists, Congressional Budget Office director Robert Reischauer,

¹ The total deficit also reflects the effect of one-time actions such as relief expenditures following a natural disaster, the costs of the savings and loan bailout, and revenues from the sale of a government asset. The effects of such actions are normally excluded from the structural deficit.

made a number of these points. "[I]f it worked," Reischauer warned, "[a balanced budget amendment] would undermine the stabilizing role of the federal government." He noted that the automatic stabilizing that occurs when the economy is weak "temporarily lowers revenues and increases spending on unemployment insurance and welfare programs. This automatic stabilizing occurs quickly and is self-limiting—it goes away as the economy revives—but it temporarily increases the deficit. It is an important factor that dampens the amplitude of our economic cycles." Under the constitutional amendment, Reischauer observed, these stabilizers would no longer operate automatically.²

Such problems are aggravated by the amendment's ambitious timeframe for achieving budget balance. The budget would have to be balanced by fiscal year 1999. This would require elimination between fiscal year 1994 and fiscal year 1999 of a deficit estimated to equal \$404 billion in 1999.

To eliminate a deficit this large in that timeframe would require fiscal retrenchment so large it would be likely to slow economic growth markedly and cost many jobs. Increasingly, other deficit reduction proposals, such as that issued this fall by the Center for Strategic and International Studies, call for bringing down the deficit over a longer timeframe so that the adverse effects of overly precipitous deficit reduction are avoided.

Needed investments could be reduced

Adding to the problems the amendment would pose for the economy is the amendment's failure to make any distinction between other government spending and government investments in areas where economists stress that *more* investment is needed—areas like infrastructure, education and training, early intervention programs for children, and research and development. There is growing evidence we invest too little in these areas and that such underinvestment has contributed to our nation's weak economic performance in recent years.

The lack of such a distinction in the constitutional amendment means that such investments would likely be cut further. Given the enormous amount of deficit reduction that would be required to balance the budget by fiscal year 1999, it is likely that most programs not protected by powerful constituencies—including some key investment programs—would face the budget ax. Budget cuts would likely be made in most areas where this proved politically feasible, without sufficient regard for the merits of a program or whether the program was needed to boost prospects for long-term growth. Some across-the-board cuts would be likely, with few exceptions made.

As a result, the constitutional amendment could undermine efforts to set national priorities in a judicious manner. As Reischauer observed: "A balanced budget rule could make it even harder to conduct discussions of policies on their own merits, and could lead to distortions of policies simply to meet budget goals * * * spending cuts that would result in immediate savings most likely would be made first, without much consideration of the long-run merits of the program."³

Approval of the amendment would also likely lead to a search for quick fixes to help balance the budget in particular years, although such measures could make the deficit worse over the long run, distort policy, or reduce government efficiency. In the nation's previous experience with fixed deficit targets under the Gramm-Rudman-Hollings law, that is precisely what occurred.

This suggests what is needed is not a constitutional amendment, but political leadership and courage in making tough fiscal choices and setting national priorities that can reduce the deficit in an equitable manner, while increasing public investments needed to help the economy grow. The Clinton budget takes an important first step along that course. One of my fears is that the constitutional amendment would lead to the abandonment of many Clinton investment priorities in the years ahead.

² Statement of Robert D. Reischauer before the House Budget Committee, May 6, 1992.

³ Reischauer, *op. cit.* He also noted that "Major deficit reduction surely entails spending cuts, but the reductions should be based on the long-run effectiveness of the benefits provided, not on meeting a rigid annual dollar target."

Reischauer warned that a balanced budget requirement could also have another adverse effect—it could lead to frequent changes in tax policy and program funding levels as adjustments were made from year to year to achieve budget balance. Frequent changes in tax policy would hurt the economy, Reischauer said, "because people cannot adjust their behavior to reflect the effect of taxes on incentives to work and invest if those taxes are continually changing." He added that the economic harm from this instability is large. A balanced budget rule could also cause damage, Reischauer said, by increasing the level of uncertainty attached to entitlement programs and procurement contracts. "Government contractors would demand higher prices to do work for the government knowing that it could be terminated abruptly. People receiving government benefits might lose these benefits during hard economic times, precisely when such support is most needed."

Parallels with state government

Supporters of the amendment often dismiss such concerns about its impact, arguing that states balance their budgets and the federal government should also. But these allusions to state balanced budget requirements overlook several important points:

- Many states are required to balance their *operating* budgets, not their *total* budgets. States typically have separate budgets for operating expenses and capital expenses, and the requirements for budget balance often apply to the operating portion of the budget. This means that investments in roads, bridges, school construction, and the like often are not subject to budget balancing requirements and can be financed through bonds or other borrowing measures. This is widely regarded as a sound practice because such capital investments are designed to yield long-term benefits that can strengthen state economies and also because such investments may be placed at a disadvantage if they have to compete for funds, under a balanced budget regime, with ongoing costs for government operations. The constitutional amendment does not make such a distinction. It includes, as part of the overall federal budget that must be balanced each year, the roughly \$135 billion now expended annually for investments in physical capital (as well as the additional \$70 billion a year invested in research and development and the \$38 billion in education and training).⁴ As a result, it is different from, and cruder than, the balanced budget procedures in many states.
- In addition, many states have established "rainy day" or reserve funds, which they draw upon when their budgets would otherwise be out of balance. Under the proposed constitutional amendment this approach would not be permitted at the federal level, since all expenditures count as "outlays" in the year the expenditures are made—regardless of whether the funds expended are drawn from a trust fund, a reserve fund, or any other fund.
- The federal budget has a much larger impact on the U.S. economy than state budgets do, and federal fiscal retrenchment during periods of slow growth can have adverse consequences of a far greater magnitude than the effects wrought by state austerity measures. Moreover, the fact that states cut their budgets and raise taxes when the economy slows or recession hits is itself a reason the federal government should *not* follow suit. Federal counter-cyclical policies are essential during such periods to stabilize the economy and to offset the drag on the economy caused by state and local retrenchment.⁵

Foreclosing the government's ability to borrow to invest

In addition, the amendment would, in most years, largely deny to the federal government a basic practice that most businesses, families, and state and local governments use—borrowing to finance investments with a long-term pay-off. Borrowing

⁴These figures are drawn from the budget presented by the Bush Administration in early 1992.

⁵In testimony before the House Budget Committee on May 6, 1992, CBO director Robert Reischauer assessed the argument that the federal government should operate a balanced budget requirement because states do so. Reischauer observed:

"The federal government assumes some major responsibilities not assumed by state governments, including providing for national defense, maintaining the stability of the national economy, and providing disaster assistance. These responsibilities periodically may require intentional budget deficits * * *."

"The fiscal structure of states also differs from that of the federal government, and this has relevance for the budget that is to be balanced. Balanced budget requirements of states normally apply only to operating budgets, with capital budgets and employee pension funds excluded from consideration. In contrast, the amendments under consideration would require the total federal budget to be balanced, which includes investment (capital) activities, pension funds, as well as operating expenditures."

"In many cases, the state balanced budget rules, which vary substantially from state to state, offer broad scope for evasion. Many more states require the Governor to submit a balanced budget to the state legislature than require the legislature or the Governor to approve a balanced budget. In addition, requirements imposed during the preparation of state budgets do not force them to be balanced in reality. The *Fiscal Survey of the States*, recently released by the National Association of State Budget Officers, indicates that three-fourths of the states spent more money than they took in during fiscal year 1991. States have been known to use mechanisms such as shifting revenues and expenditures between fiscal years, engaging in short-term borrowing, and creating quasi-governmental entities (off-budget agencies) to get around fiscal strictures. This problem, coupled with the dissimilarities between the national and state governments, calls into question the appropriateness of arguing for a balanced budget based on state experience."

to pay for new investments is, in fact, standard business practice. A business that failed to modernize because it could not borrow would soon be left behind. Moreover, if businesses failed to borrow to finance investments in new plant and equipment and production techniques, economic growth would be retarded.

Similarly, families borrow to finance home purchases and education. If individuals failed to borrow to finance higher education, their employment and lifetime earnings prospects would be dimmer and our workforce would be less productive. The same point applies to state and local governments as well; if they failed to borrow to finance construction on roads, bridges, airports, schools, and other essential facilities, our infrastructure would deteriorate.

Under the constitutional amendment, the federal government alone would be denied the ability to use this standard business practice. The federal government would be able to borrow to finance needed investment only if three-fifths of the Congress voted to waive the balanced budget requirement and authorize borrowing on a fairly regular basis. The likely result would be less investment—and less long-term growth.

As the *New York Times* observed in an editorial published last year, "No rational business or government would balance a budget this way. Businesses borrow to invest. Even states, required to balance their *operating* budgets, borrow for capital investment."⁶

II.—WOULD THE CONSTITUTIONAL AMENDMENT BE EQUITABLE?

There are two basic issues here. The first is whether the constitutional amendment would treat tax increases and program cuts comparably or whether it would skew government decision-making by favoring one such approach over the other. The second issue is whether the amendment would be likely to favor some income groups at the expense of others.

The amendment poses problems on both counts. It would alter basic Congressional voting procedures that have existed for more than 200 years by making it somewhat harder to raise revenues than cut programs. The amendment requires approval from a majority of the *full membership* of both houses to pass a bill raising revenues and bars "voice votes" for such measures. A bill cutting government programs, however, could be passed by a majority of those *present and voting* and on an unrecorded voice vote.

In addition, under the amendment, it would be very difficult in certain circumstances to raise revenues at all when a deficit emerged and had to be erased. It appears that, under the amendment, if the budget for a fiscal year was balanced at the start of the year but later became unbalanced due to factors beyond the government's control—such as weaker-than-anticipated economic growth, bank failures, or a natural disaster—deficit reduction would be required to ensure the budget was brought into balance for the year as a whole, even if only a few months or weeks remained in the fiscal year. Once a fiscal year is well underway, it is difficult to take actions that would increase revenue collections *in the same year*. In such a circumstance, most or all of the deficit reduction needed would probably have to come from program cuts. Deep cuts and outright termination of some programs for the final weeks or months of the year might be the only option available.

Amendment could favor wealthy

The amendment's imbalance between spending cuts and revenue increases means that over the long run, the amendment could favor the wealthy and powerful over those in the middle and bottom of the income scale. This is because tax subsidies—or "tax entitlements" as *The Washington Post* editorial page appropriately calls them—are heavily skewed to people in higher income brackets, while government benefits and services go in far larger proportions to the middle class and the poor. If it is harder to raise taxes than cut programs, the burdens of deficit reduction are, over the long term, likely to be borne disproportionately by those in the bottom half of the income scale.

The lack of equity in such an approach can be seen by considering what might happen if balancing the budget made it necessary to scale back entitlement benefits for the elderly. Because of the amendment's tilt toward spending cuts rather than revenue increases, it would require more votes to trim benefits for the affluent elderly than to cut benefits disproportionately for elderly people at low and moderate income levels.

Trimming Social Security or Medicare benefits for the affluent elderly generally requires using the tax code—and making a portion of the benefits (or in the case

⁶ "Unbalanced," *New York Times*, May 11, 1992.

of Social Security, a larger portion) subject to taxation. The tax code has to be used because the Social Security and Medicare programs do not collect information on beneficiaries' incomes, and trying to do so would entail high administrative costs.

But cutting Social Security cost-of-living adjustments—which would take a much larger percentage of income from the elderly poor and near-poor than from those at high income levels—reduces outlays rather than increasing receipts. Hence, it would take somewhat fewer votes to pass such a measure on the House and Senate floors than to pass a measure scaling back benefits for elderly individuals at higher income levels.

Similarly, an effort to scale back the mortgage interest deduction or medical deduction for individuals at very high income levels would require somewhat more votes than a cut in housing or health services programs for families with low or moderate incomes. And as noted, such tax policy changes generally could not be used as budget-balancing measures if a deficit appeared well into a fiscal year.

New tax cuts for the well-to-do?

The constitutional amendment might even boost prospects for passage of certain new tax cuts for the well-to-do. An effort to achieve a balanced budget in just a few years—and subsequent efforts to eliminate deficits that develop during the course of a fiscal year—are likely, in some years, to produce a scramble for “quick fixes.” Certain upper-income tax cuts—such as a capital gains cut—can be obligingly designed in ways that increase revenues in the short-term, while losing far larger amounts of revenue over the long run. The need for “quick fixes” to balance the current year's or next year's budget could increase the leverage of those seeking such tax cuts.

The need to win approval from three-fifths of both houses to waive the balanced budget requirement in a recession would add to this problem. To get to the three-fifths threshold, the price that some recalcitrant Members might exact could be a capital gains cut or other tax break touted by its backers as a “growth incentive.” Such tax breaks usually prove to lose revenues and increase the deficit over the long term, which in turn could lead to additional program cuts in subsequent years to bring the budget back into balance.

Impact on those with low or moderate incomes

Any discussion of the amendment's potential effects on groups at different income levels would be incomplete without some attention to the impact on those who live in poverty. Over the long run, the amendment would likely result in disproportionate reductions in programs serving the weakest and least organized constituencies. As a result, the poor could lose more heavily than other groups. This is exactly what happened in many states during the past two years when states had to balance their budgets during an economic downturn.

Other federal budget procedures, such as the sequestration provisions of the Gramm-Rudman-Hollings Act, include protections for low-income programs. These programs are shielded from the Gramm-Rudman-Hollings across-the-board cuts. The constitutional amendment contains no provisions to shield those who are the poorest.

If a projected \$400 billion federal deficit must be eliminated by 1999 and there are no protections for the poor, it is likely that basic programs for the poor will suffer. This probability is somewhat further increased by the provisions of the amendment making it harder to raise revenues than cut programs.

III.—SHIFTS IN POWER AND THE POTENTIAL FOR TURMOIL

One implication of the amendment that deserves attention is its potential to enable a minority of the Congress to exert unprecedented influence over national economic and budget policy by holding the government hostage unless their demands are met. The amendment could also alter the balance of powers among the three branches of government, strengthening the executive and judicial branches and diminishing the power of the legislative branch.

The amendment could greatly increase the power of a Congressional minority because of its requirement that the balanced budget requirement remain in effect at all times unless three-fifths of the membership of both houses voted otherwise. This means a minority of the Congress could block critical actions that a majority of the Congress and the President favored, such as actions to waive the balanced budget requirement if a recession threatened or had already started—or if bank failures, a natural disaster, or other uncontrollable events produced a deficit during a fiscal year. Minority factions could withhold support for a waiver of the balanced budget rule in such circumstances—thereby threatening government defaults or government failure to issue Social Security checks or meet other obligations—unless they

were granted major policy concessions. These provisions would likely place substantial new power in the hands of those in Congress who seek to reduce the role of the federal government and are willing to threaten turmoil and disruption to achieve their ends.

The amendment could also lead to a shift in power from Congress to the executive branch and the courts. This power shift is a potential result of the amendment's silence on basic issues regarding its implementation.

The amendment contains no provision explaining who would enforce it. Suppose the budget was balanced at the start of the fiscal year, but a deficit developed during the year because the economy performed less well than forecast. Suppose Congress and the President could not otherwise act rapidly enough to end the fiscal year without a deficit. Would the President unilaterally assert line-item impoundment authority or make changes in government benefit programs, arguing the constitutional amendment implicitly conferred such authority upon him? Would the courts step in and determine what cuts to make, supplanting officials elected by the public? Would the government simply cease to fulfill basic obligations, like providing Social Security checks?

The amendment simply states that Congress shall pass subsequent legislation to determine how to enforce and implement the constitutional amendment. As a result, some key issues regarding the amendment remain murky. Members of Congress are essentially faced with a constitutional amendment that omits some crucial details on how it would work, with the answers to come in subsequent legislation that might not be enacted until after the amendment has been ratified. The amendment could be placed in the Constitution before it is clear just what it means in these areas.

Yet another set of questions center on what would happen if a tax bill designed to be revenue-neutral—and enacted in the expectation it left overall revenue collections unchanged—turned out to raise revenues modestly. Suppose the bill had not passed on a roll call vote of a majority of the full membership of each house? Could an individual or corporation whose tax break had been narrowed by the bill sue and get the courts to declare the bill unconstitutional?

Conclusion

Many Members of Congress have explained the attractiveness of the amendment by citing the high level of the deficit and the government's seeming inability to do anything about it. The claim that no action has been taken on the deficit is not correct. Due to the 1990 budget agreement, the deficit will be nearly \$500 billion lower during fiscal years 1991 to 1995 than it would otherwise have been. In addition, that agreement brought Congressional action to expand entitlements or confer new tax cuts to a virtual halt. The deficit rose despite the agreement not because the agreement failed, but primarily because of the recession and increased costs for the savings and loan bailout and health care programs. Without the agreement, the deficit would be even higher than it currently is.

Moreover, the Clinton budget plan would make major progress in reducing the deficit, and the pending Congressional budget resolution would go somewhat further. A combination of the Clinton plan as modified by the budget resolution, national health care reform, and probably one more large budget agreement a few years down the road could get the deficit under firm control. This is the course of action that is needed. A balanced budget constitutional amendment that could make recessions more frequent and deeper, lead to reductions in needed investments, and shift substantial power to minority factions, is not.

Senator SIMON. I thank all three of you. Obviously, we do differ on this. I can come to, I think, more logical reasons for conservatives opposing this amendment than for liberals opposing this amendment. I agree with all three of you that President Clinton has, to his great credit, faced up to this problem. I agree with at least two of the three of you that reducing the deficit is a desirable thing.

Just a few comments; it is interesting that you comment about the \$15 billion stimulus package. I was at a meeting before this hearing this morning with a few of my colleagues where I said the ideal situation right now, I think, would be a stimulus package together with a long-term deficit reduction.

But we talk about a \$15 billion stimulus package. Taiwan has 10 percent of our population. Taiwan today has a \$600 billion, 5-year infrastructure program, \$120 billion a year. The equivalent would be for us to have a \$6 trillion infrastructure program, \$1.2 trillion a year. The financial markets would go berserk if we did something like that. Taiwan is in that situation because Taiwan has been very prudent fiscally. It has more foreign reserves than any other country. I think it is safe to say 10 years from now Taiwan is really going to be moving ahead economically, and for understandable reasons.

The argument that you used, Mr. Sawicky, in terms of percentage of GNP, I think, ignores the culture of debt, not simply Federal Government debt, but as you measure from 1950 and other periods, you also have to look at corporate debt and that is another thing that we frankly ought to be addressing in our tax laws. When you add corporate debt and consumer debt, you have a very different situation than you have had in previous years.

Mr. Oswald, on the constitutional majority, frankly, this was a compromise. As you heard this morning, there were a great many of my colleagues who wanted to have a three-fifths majority. I would vote against any constitutional amendment that has that, but almost every tax bill we have passed over the years has had a constitutional majority. So, it is a slight inhibition, but not a major inhibition.

On the capital budgets, Mr. Greenstein, I would differ with you in two respects. First, I saw in the State of Illinois where we started incurring debt needlessly simply because it was convenient. One of the things that we have to recognize is we have a different political culture today and we are electing too many people in both political parties who hold their finger to the wind and say, what do the latest polls have to say, and those polls show what people want is more services and lower taxes. We have given them both, to our great detriment.

The biggest capital project we make at the Federal level is a nuclear aircraft carrier. You can pay for that over 6 or 8 years. You don't need a capital budget for that. The biggest public works project in the history of the world was the interstate highway system. President Eisenhower suggested that we issue bonds for that, and to the great credit of Senator Albert Gore, Sr., he said let us increase the gasoline tax and pay for it on a pay-as-you-go basis. We saved hundreds of billions of dollars and, you know, just did a great service to the economy.

Then, finally, I think that the deficiency in your argument is that if you take a look at the new building of Justice that is right next to Union Station, that was built under a lease arrangement by the Federal Government. We are paying x number of dollars each year. At the end of 20 years, we will own the building. So a capital budget, while I think generally we ought to be avoiding it, is perfectly possible under this constitutional amendment.

One final question to all of you. Have the three of you read the GAO report of June of last year?

Mr. SAWICKY. I took a look at it.

Senator SIMON. I would urge that you do more than just take a look at it.

Mr. SAWICKY. I stipulated, and I don't think my colleagues would disagree, that the projections are intolerable. Something has to happen. There has to be an adjustment. If you project the trends forward, you get intolerable and then absurd results in terms of numbers, so that isn't at issue, I don't believe.

The issue is how you address that, and in nothing you said did you get past the problem, I believe, right now, which is that when you have drastic deficit reduction at the wrong time you end up defeating your own purpose because you plunge the economy sufficiently deeply that you don't even reduce the deficit to nearly the extent you had hoped for.

Senator SIMON. We agree on that. I would oppose, for example, what Thomas Jefferson favored. He favored an absolute prohibition against Federal Government borrowing. I think there are times when you should—for example, we have all agreed that the Clinton program is a great program. The difficulty is that the real pain comes 2, 3, 4 years out, and while I think, after much noise and some minor alteration, the Clinton program will pass right now, 2 years, 3 years, 4 years down the road I think we are going to have real difficulties unless we have some kind of a discipline.

Mr. Greenstein?

Mr. GREENSTEIN. I would disagree with that, Mr. Chairman. The Clinton plan, as I understand it, will be enforced by pay-as-you-go requirements and discretionary caps, and the pay-as-you-go requirements and discretionary caps in the 1990 budget agreement worked pretty well. I think the Clinton plan is designed so that if an entitlement cut or a tax increase is to kick in 2, 3 years down the road, Congress will not be able to undo it without paying for it dollar for dollar by an equivalent entitlement reduction or tax increase.

In response to your question on the GAO report, you were kind enough to send me a copy of that report last year.

Senator SIMON. That is right, after our discussion in my office, yes.

Mr. GREENSTEIN. That is right, and I have read it. I don't read the report as saying the remedy is or is not the constitutional amendment.

Senator SIMON. I agree with that, yes.

Mr. GREENSTEIN. And I think that is where we differ. I think we agree that the deficit is much too large and tough action is necessary. The question is on the remedy. It seems to me that this remedy might properly have had more appeal a year ago when we looked like we were in gridlock as far as the eye can see.

What I am hoping is that we get the Clinton plan through, that that is followed by national health care reform that, over time, will bring the deficit down because it slows the rate of growth in health care costs, which is the area that is killing us, and that then a few years after that—maybe it is the first year of the next Presidential term—we get another big package. If we have this year's Clinton package, national health care reform and another big package, I think it gets us, you know, most or all of the way there and I think it would be greatly to be preferred not to be locked into the strait-jacket that the constitutional amendment would impose.

Let me just add that I, too—

Senator SIMON. If I can interrupt to say I agree with your statement up until the last sentence.

Mr. GREENSTEIN. I do want to note, also, that I share some concerns about a capital budget and was not meaning to say a capital budget is the answer, but rather that whatever we do on the deficit front, we must be very careful to do it in a way that we don't cut into the very kinds of public investments we need.

One of the great strengths of the Clinton budget is that it reduces the budget deficit and reduces the investment deficit at the same time, and my fear is that the rigidity of a constitutional amendment, while it would not automatically require key public investments to be reduced, I fear that that would be a practical outcome it would have.

Senator SIMON. You have got the last word, Rudy Oswald.

Mr. OSWALD. I would just add that I think the Clinton program does take effect fairly early. Nearly 80 percent of the tax increases do take place in 1994. You couldn't put them into effect any earlier even if you essentially wanted to, but I think the issue is do you have a commitment of leadership and political will to do what elected officials are there to do.

I think we have a demonstration now that with good Presidential leadership that takes place. With bad Presidential leadership, we did make mistakes in the 1980's, but I don't think the way to do that is to have a constitutional amendment, but to, through the election process, elect someone that fulfills the democratic desires of the country.

Senator SIMON. We thank you for being here and our hearing stands adjourned.

[Whereupon, at 12:11 p.m., the subcommittee was adjourned.]

APPENDIX

ADDITIONAL SUBMISSIONS FOR THE RECORD

PREPARED STATEMENT OF HON. BOB KRUEGER

Mr. Chairman:

Thank you for the opportunity to address this distinguished committee. Before I begin my testimony, I want to commend you for introducing a balanced budget amendment to the Constitution. This is one of the most momentous initiatives the 103rd Congress can set in motion. I'm proud to be a co-sponsor of your bill.

Mr. Chairman, we so routinely speak of a situation being a "crisis" that the word has lost meaning. I am mindful that "crisis" is a medical term referring to a pivotal moment in the course of a disease when the patient turns toward recovery or his family prepares for the worst.

Mr. Chairman, the situation with our federal debt and our federal deficit has reached a crisis in that legitimate and alarming definition.

Our federal debt exceeds \$4 trillion. To pay it off, each man, woman, and child in America would have to pay \$16,000.

The federal deficit is expected to amount to \$310 billion this year, the fourth consecutive year of unseemly record increases. At today's rate of growth and under today's relationship between taxes and spending, our deficit will exceed 20 percent of G-D-P in the lifetimes of our children.

Moreover, if we do not reverse this trend, we will reach none of the intermediate goals so vital to our nation's future—goals like increased public investment, greater commitment to education and health care, and public private partnership to make our nation competitive in a global economy.

Like the 800-pound gorilla that sits where it pleases, our deficit is crowding America out of her own destiny. But I am encouraged to see the *beginnings* of progress toward caging this monster of our making. We have started to cut the cost of government. The House and Senate budget committees and the president have been working day and night to cut billions in federal spending. Unpleasant though the task is, congress is actively considering how to raise revenues. Best of all, congress and the president are seeking advice from people who know best how to cut spending and make government work—front line government employees.

However—and this is a big however, Mr. Chairman—it took us too long to make this fledgling start. Progress is by no means assured, for the call has barely gone out, and already we hear voices protesting, "Not me! Not now!" We are realistic enough to know that borrowing and spending are addictions, and as with any addict, the promise to reform is easy to make and difficult to keep.

That is why men and women of conscience and determination need the right regimen to do this enormous and enormously important job. That regimen is in the Constitutional amendment you have introduced.

This measure requires the president to submit and the congress to enact a balanced budget every fiscal year after October 1998 or within two years of ratification by the states.

It tightens definitions of outlays and receipts to end the smoke and mirrors with which no one is fooled any longer.

It allows a tax increase only by a recorded majority vote in both houses.

It requires a three-fifths majority of both houses to approve a deficit and to lift the debt ceiling.

By doing so, this measure retains fiscal flexibility to meet national and economic emergencies, which should be sole causes for violating balanced budget discipline.

I mention these provisions because they anticipate the objections of those who oppose the *concept* of a balanced budget amendment. Those critics protest that such an amendment doesn't focus on an operating budget, is easy to evade through sly mechanisms and slick definitions, limits the responsiveness of fiscal policy, and lacks fitting legislation to compel congress to implement the Constitutional edict. The amendment before you does all those things.

Mr. Chairman, as legislators we know that situations rarely present themselves with conspicuous clarity. Few are the times we unambiguously see where we are, how we arrived, and what lies ahead. Today, Mr. Chairman, congress and the country have reached such a moment of clarity about our fiscal course and where it leads.

Sadly, we have not reached that moment while standing upon a pinnacle of prudence. Instead, we're up to our necks in a well of red ink, and our insight is that of a drowning man whose life passes before him. But it is not too late to save ourselves and the future of this country for our children.

Mr. Chairman, few times in our careers as legislators will we need bring Constitutional clout to bear on a problem. But when the rightful occasion does arise, we must rise to it. This is such a time. And I ask this committee to report out Senate Joint Resolution 41 without delay.

Thank you.

A BALANCED BUDGET CONSTITUTIONAL AMENDMENT: ECONOMIC ISSUES

[Outline of Presentation by Robert Eisner for the Congressional Research Service Seminar, Library of Congress, May 28, 1992]

A. GENERAL ECONOMIC ANALYSIS

Proposed amendments to the U.S. constitution purporting to force a "balanced budget" are bad economics. Their deleterious effects will be only partially mitigated by substantive unenforceability.

1. Budget deficits can be too small as well as too large. To know which is the case, we have to know how to measure them. U.S. budget accounting is utterly inconsistent with ordinary business accounting and conventional measures of the "deficit" are virtually meaningless. OMB and Congressional measures of the Federal deficit make no distinction between current "consumption" and capital transactions. The one meaningful argument for deficit reduction is that it is necessary to increase national saving. But reduction in the conventionally measured deficit can hurt the economy now and reduce real national saving and investment in our future.

2. Private business is generally always increasing its debt. It would be considered to be growing in a meaningful sense of balance if its debt grew at the same rate as its income. For the Federal Government that would imply debt growing at roughly a 7 percent rate and a deficit that was some 3½ percent of GNP, just about what it is now after, correctly, taking out funding of "deposit insurance" and the effects of the recession.

3. The Nation has real deficits in public investment in infrastructure, in education, in research, in the combat of crime and drugs. To insist that the Federal Government balance its budget as currently measured is to put major road blocks in the way of that investment.

4. The economy needs variation in the deficit. Federal deficits mean private and state and local surpluses. Bigger deficits are virtually inevitable in recessions and an attempt to counteract the deficits would only add to the recessions. In recessions, when tax receipts go down and government expenditures for unemployment benefits go up we should try to spend more and tax less to help get the economy back on its feet, not do the opposite, in an almost certainly vain attempt to "balance" the budget. Undue and untimely constraints to "balance the budget" will deepen and prolong recessions and hence actually reduce business investment and private saving.

B. THE PROPOSED AMENDMENTS

"Outlays" and "receipts" are not clearly defined. Under current budget practice sales of assets are counted as negative outlays. The budget could thus be "balanced" by repeated sales of assets. The White House and Capitol, our highway system, our

military hardware could all be sold, perhaps on a lease-back arrangement and the "deficit" eliminated for many years, at least until we had gotten rid of all government property.

Labels of receipts and outlays are in fact arbitrary. If we were to account for social insurance as might private companies, for example, the "deficit" would be far greater as current payroll taxes would be counted as loans to the government to be paid back in future retirement benefits.

Conversely, to avoid a deficit or the necessity to raise the debt ceiling, Federal employees, military and civilian, could be given checks that would be labeled "loans," interest-free and presumably to be paid back by the employees (or retirees or government contractors) whenever the Government finally had the "receipts" out of which to pay its workers. This game could go on indefinitely as recipients of the loans would know that they would never have to repay them unless the Government made up its own back payments.

1. *Senate Joint Resolution 18 (Simon amendment)*

Section 1. "Total outlays * * * shall not exceed total receipts."—This is like commanding the waves in the ocean to cease. What if the waves refuse to obey? Tax receipts vary automatically with individual and business incomes. The only way to guarantee that there would be no shortfall would be to set taxes so high relative to planned expenditures that there would generally be a large surplus.

Section 2. What prevents the President from proposing an utterly unrealistic budget in which receipts are vastly overestimated and outlays underestimated?

Section 3. Who is to decide whether a particular bill will "increase revenue"? Will cutting capital gains tax rates increase revenues as some of its proponents claim? Will cutting tax rates generally increase revenues as some supply-siders have asserted. Will such measures to reduce tax rates, or to change the tax structure, require a super-majority if a court (or who?) decides they would actually increase revenues?

Section 4. What about undeclared wars? Is this section intended as a mandate to make all wars declared wars. (That might be a good idea.)

Section 5. This is an invitation to wholesale and indiscriminate "privatizing." Is this its purpose? It is also an invitation to foist Federal outlays off on state and local governments, private business and individuals. Instead of medicare and medicaid, we could lay out regulations requiring private business to meet all health care costs. We could tell states to get together and build and maintain their own interstate highway system. Is that what we want?

Section 6. This would require a reduction of outlays and/or increase in taxes of perhaps \$400 billion in one year after ratification of the amendment. Does anyone think this is doable, let alone doable without wrecking the economy?

2. *Senate Joint Resolution 182 and House Joint Resolution 248 (Kasten and Barton amendment)*

Section 1. Same problem as above. And how can Congress and the President "ensure that actual outlays do not exceed the outlays" projected? What if unemployment rises and Federal contributions to unemployment benefits rise accordingly? Does the Treasury stop paying all claimants? Suppose, as has just occurred, more college students apply for Pell grants than anticipated, are the applications to be rejected even though, under the law, the applicants qualify? Or suppose more people decide to retire and collect their benefits, or more people get sick, of AIDS or anything else, do "Congress and the President" stop payments? Or suppose farm prices fall and price support payments increase? In any event, how can all this be ensured against? And suppose Congress (both houses) and the President cannot agree? Do we put any or all of them in jail? Who does that?

Section 2. Suppose (as would be the case in fiscal year 1993) that national income had increased very little (or even declined) in the second prior fiscal year. (National income actually increased by 2.58 percent in fiscal year 1991.) Suppose further that the economy is currently recovering briskly and is indeed in boom, with tax receipts from high corporate and individual incomes rising rapidly. (The Treasury and OMB forecast and increase of receipts of 8.34 percent, to \$1165.4 billion in fiscal year 1993.) Does this section mean that in the face of such a boom Congress must cut taxes to prevent receipts from rising? (To comply with the provision of this section, taxes would have to be cut by \$61.9 billion to prevent receipts from rising more than the indicated 2.58 percent.) This would be counter to the principles of fiscal policy understood and advocated by analysts of all persuasions. It would mean repeated tampering with tax rates, and in a pro-cyclical fashion, lowering them when the economy is least in need of stimulus and may well be running the danger of overheating. And conversely, in a fiscal year two years after a prior boom, this section

would permit a very large tax increase without any super-majority just when the economy might be running out of steam or even entering into a recession. This section would thus make tax increases easier to legislate just when they should be prevented.

Section 3. What is the force of this section? Suppose, as is likely, the President's proposed statement and that of either or both houses of Congress differ. Are they to be reconciled?

Section 4. Again, what about undeclared wars? What about civil disturbances, riots, natural disasters?

Section 5. Same arbitrariness and/or vagueness as to what constitutes receipts and what constitutes outlays.

Section 6. As our population, economy, incomes and need for public and private capital grow, this would apply a constraint to the Federal Government applied nowhere else in the economy—or to the government of any other advanced industrial country. It would mean that Federal debt would become a smaller and smaller proportion of total debt and GNP. Since investment is widely financed by debt, it would mean that public investment would be shackled and public capital would become less and less relative to the needs of the economy. This section also raises the question of what happens if the required super-majority does not approve the increase in the public debt? Does part of the government shut down? Does it default on the Federal debt? What prevents a minority from blackmailing the majority of the Congress and the President until its own special interests or ideologies are catered?

Section 7. Suppose the Congress does not enforce and implement this article. Is Congress to be put in jail? Suppose the Congress passed the necessary implementing legislation but the President vetoes it? Is the President then to be impeached and thrown out of office for not upholding the constitution?

Section 8. This section puts off any direct effect of the amendment for at least four years. If budget deficits really are as damaging as some assert, why should we delay so long?

3. *House Joint Resolution 290 (Stenholm amendment)*

Section 1. What if President and both houses of Congress cannot agree on estimate of total receipts?—Suppose actual outlays exceed estimated receipts because of nondiscretionary increases, such as for larger than anticipated unemployment benefit claims, social security retirement claims, higher interest payments on debt, or greater farm subsidies because of fall in market prices? Suppose various interest groups combine to prevent achievement of super-majority? Then what? It would apparently not matter if actual receipts, perhaps due to inflation, also exceeded anticipated receipts. Outlays would still have to be cut to the level of previously estimated receipts.

Section 2. This presents even more serious problems along the lines of those above. A recession will cause some outlays (as for unemployment insurance) to rise and receipts to fall. This would necessitate raising the debt ceiling and the requirement of a super-majority might again increase the opportunities for special groups to blackmail the Congress with the threat of a breakdown of government or default on debt payments.

Section 3. Is there anything to prevent the President's proposed budget in accordance with this section from including a figure for "total receipts" which differs from the "estimated receipts" agreed upon with Congress in Section 1?

Section 4. Again, who is to determine that a bill "will increase revenue"? Will a 10 percent surcharge on taxes of those earning more than \$1,000,000 combined with a 1 percent cut in taxes of everybody else increase revenues or decrease them? Again, will a cut in tax rates on realized capital gains decrease revenues or increase them?

Section 5. What about undeclared wars or civil disturbance or natural disasters?

Section 6. This section, under existing definitions and budget practice, invites use of the (uneconomic) loopholes of selling off both real and financial assets (negative outlays) and using regulations to compel private or state and local government expenditures as substitutes for federal outlays.

Section 7. This section delays any direct impact for over two years. But it also calls for abrupt cuts in outlays or increases in receipts in magnitudes far greater than any contemplated in previous plans for deficit reduction. Effects on government programs, including social security, aid to education, research, and infrastructure would be enormous. The economy would likely be pushed into a major recession by the abrupt withdrawal of perhaps \$400 billion of purchasing power inherent in whatever combination of reduced outlays and increased taxes the Congress agrees upon.

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